

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Center Line</u>	County Macomb
Audit Date June 30, 2004	Opinion Date August 19, 2004	Date Accountant Report Submitted To State: October 22, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 10 South Main Street, Suite 200	City Mount Clemens	State MI	ZIP 48043
Accountant Signature <i>Plante & Moran, PLLC</i>			

City of Center Line, Michigan

Financial Report with Supplemental Information June 30, 2004

City of Center Line, Michigan

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-10
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12-13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	14
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	15
Statement of Revenue, Expenditures, and Changes in Fund Balances	16
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Proprietary Funds - Enterprise Funds:	
Statement of Net Assets	18
Statement of Revenue, Expenses, and Changes in Fund Net Assets	19
Statement of Cash Flows	20
Fiduciary Funds - Pension and Other Employee Benefit Trust Funds - Retiree Healthcare Fund:	
Statement of Net Assets	21
Statement of Changes in Net Assets	22
Notes to Financial Statements	23-43
Required Supplemental Information	
Budgetary Comparison Schedule - General Fund	44
Police and Fire Retirement System Schedules of Funding Progress and Employer Contributions	45-46

City of Center Line, Michigan

Contents (Continued)

Other Supplemental Information

Nonmajor Governmental Funds:

Combining Balance Sheet	47-48
-------------------------	-------

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	49-50
--	-------

Fiduciary Funds - Pension and Other Employee Benefit Trust Funds:

Combining Statement of Net Assets	51
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Combining Statement of Changes in Net Assets	52
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Plante & Moran, PLLC
Suite 200
10 S. Main St.
Mount Clemens, MI 48043
Tel: 586.465.2200
Fax: 586.469.0165
plantemoran.com

Independent Auditor's Report

To the City Council
City of Center Line, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Center Line, Michigan (the "City") as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Center Line, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Center Line, Michigan as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison schedule, and retirement system schedules of funding progress and employer contributions identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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To the City Council
City of Center Line, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Center Line, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note I, the City implemented the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2003.

Plante & Moran, PLLC

August 19, 2004

City of Center Line, Michigan

Management's Discussion and Analysis

The City of Center Line, Michigan's (the "City") management's discussion and analysis (MD&A) is designed to provide an objective and easy-to-read analysis of the City's financial activities based on current information and facts. The MD&A is intended to serve as an introduction to the City's basic financial statements. Specifically, this information is designed to assist the reader in focusing on significant financial issues, provide an overview of the City's financial activity, identify changes in the City's financial position (its ability to address the next and subsequent years' challenges), identify significant variances from the approved budget, and identify individual fund issues.

This is the first year the City has presented its financial statements in accordance with the new reporting model required by Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34). This new reporting model significantly changes not only the presentation of financial data, but also the manner in which the information is recorded.

The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both short-term and long-term information about the City's status. The remaining statements are fund financial statements that focus on individual parts of the City's operations.

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets, the difference between the City's assets and liabilities, are one way to measure the City's financial health. Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the City are divided into three categories:

- Government activities - Most of the City's basic services are included here such as public safety, public works, recreation and library, and general administration.
- Business-type activities - The City charges fees to customers to help it cover the costs of certain services it provides. The City's water and sewer system and its solid waste system are included here.
- Component units - The City includes one other entity in its report: the Downtown Development Authority (DDA). Although legally separate, this "component unit" is important because the City is financially accountable for it.

City of Center Line, Michigan

Management's Discussion and Analysis (Continued)

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and bond covenants. The City Council establishes other funds to control and manage money for particular purposes.

The City has three kinds of funds:

- **Governmental Funds** - Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash flow in and out, and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement that explains the relationship (or differences) between them.
- **Proprietary Funds** - Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, offer short- and long-term financial information. In fact, the City's Enterprise Funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
- **Fiduciary Funds** - Fiduciary funds provide information about resources held for the benefit of parties outside the government, such as the retirement plan for the City's public safety employees in which the City acts solely as a trustee or agent. Fiduciary funds are not reflected in the government-wide financial statement because the resources of these funds are not available to support the City's own programs. The accounting used for fiduciary funds is similar to that used for proprietary funds.

Financial Highlights

The following represents that most significant financial highlights for the year ended June 30, 2004:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$100,000 from the prior year.
- Total net assets related to the City's governmental activities are \$4,920,799, with \$2,737,787 of that amount invested in capital assets.

City of Center Line, Michigan

Management's Discussion and Analysis (Continued)

- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$728,552, or 9.9 percent of total General Fund expenditures and transfers out.
- In April 2004, the City sold \$5,300,000 in General Obligation Unlimited Tax Refunding Bonds. The long-term result will be a significant savings in interest payments to the residents of the City.

Financial Analysis of the City as a Whole

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Center Line, assets of the governmental activities exceeded liabilities by \$4,920,799 at the close of the fiscal year ended June 30, 2004. The largest portion of the City's net assets (55.6 percent) reflects its investment in capital assets. The City uses capital assets to provide services to citizens; accordingly, these assets are not available for future spending.

Restricted net assets of the City's governmental activities totaled \$998,806 at June 30, 2004. These net assets have limits on their use that are externally imposed by restrictions such as enabling legislation or bond covenants. These resources can only be used for the specific purposes for which they were intended, such as expenditures for major and local streets, or debt service activities. The remaining unrestricted net assets may be used to meet the City's ongoing operations.

Since this is the first year the City has presented government-wide financial statements, comparisons to the prior year have not been presented. In future years, when prior year information is available, a comparative analysis of government-wide data will be included.

City of Center Line, Michigan

Management's Discussion and Analysis (Continued)

The following table shows, in a condensed format, the net assets of the City as of June 30, 2004:

TABLE I

	Governmental Activities	Business-type Activities	Total
Assets			
Current and other assets	\$ 3,053,990	\$ 2,669,000	\$ 5,722,990
Noncurrent assets:			
Restricted assets	-	183,971	183,971
Capital assets	<u>5,042,787</u>	<u>12,908,327</u>	<u>17,951,114</u>
Total assets	8,096,777	15,761,298	23,858,075
Liabilities			
Current liabilities	760,695	519,328	1,280,023
Long-term liabilities	<u>2,415,283</u>	<u>10,282,667</u>	<u>12,697,950</u>
Total liabilities	<u>3,175,978</u>	<u>10,801,995</u>	<u>13,977,973</u>
Net Assets			
Invested in capital assets - Net of related debt	2,737,787	2,625,660	5,363,447
Restricted	998,806	183,971	1,182,777
Unrestricted	<u>1,184,206</u>	<u>2,149,672</u>	<u>3,333,878</u>
Total net assets	<u><u>\$ 4,920,799</u></u>	<u><u>\$ 4,959,303</u></u>	<u><u>\$ 9,880,102</u></u>

As shown in Table 2 (changes in net assets), the City's total revenues were approximately \$9,690,000 for the current year, of which 50.9 percent was obtained from property taxes. Fees charged for services accounted for another 28.1 percent of the total, with the balance of the City's revenues primarily being derived from State and federal sources. The total cost of all programs and services at June 30, 2004 was \$9.96 million. City expenses cover a wide range of services. For the current fiscal year, about 47.0 percent of the City's expenses related to public safety and public works.

Net assets decreased by \$1,136,683 for the City of Center Line's governmental activities. Net assets for business-type activities increased by \$867,001 during the year. The majority of this increase is attributable to improvements to the water and sewer distribution systems.

City of Center Line, Michigan

Management's Discussion and Analysis (Continued)

The following analysis highlights the changes in net assets for the year ended June 30, 2004:

	Governmental Activities	Business-type Activities	Total
Revenue			
Program revenue:			
Charges for services	\$ 745,864	\$ 1,981,724	\$ 2,727,588
Operating grants and contributions	640,391	-	640,391
Capital grants and contributions	91,273	-	91,273
General revenues:			
Property taxes	4,934,605	-	4,934,605
State-shared revenues	1,053,733	-	1,053,733
Cable franchise fees	93,565	-	93,565
Investment earnings	64,264	24,662	88,926
Miscellaneous	40,295	-	40,295
Income from joint venture	3,400	-	3,400
Transfers	(1,695,631)	1,695,631	-
Gain (loss) on sale of assets	20,852	(4,190)	16,662
Total revenue	5,992,611	3,697,827	9,690,438
Program Expenses			
General government	1,512,749	-	1,512,749
Public safety	3,293,355	-	3,293,355
Public works	1,390,908	-	1,390,908
Recreation and culture	695,452	-	695,452
Interest on long-term debt	236,830	-	236,830
Water and sewer	-	2,554,142	2,554,142
Solid waste disposal	-	276,684	276,684
Total program expenses	7,129,294	2,830,826	9,960,120
Change in Net Assets	\$ (1,136,683)	\$ 867,001	\$ (269,682)

Financial Analysis of the City's Funds

The fund financial statements provide detailed information on the most significant governmental funds - not the City as a whole. The City of Center Line, Michigan uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements as well as to show accountability for certain activities. The City's major governmental funds for fiscal year 2003-2004 include the General Fund and the Construction Fund.

City of Center Line, Michigan

Management's Discussion and Analysis (Continued)

The General Fund is the main operating fund of the City and accounts for most of the City's governmental services, the most significant of which includes public safety. Expenditures for public safety services incurred during the year totaled \$3.1 million. The General Fund is primarily supported by property taxes (67.5 percent) and intergovernmental revenues (16.3 percent), which consist primarily of state-shared revenues. A measure of the General Fund's liquidity can be made by comparing unreserved fund balance and total fund balance to total fund expenditures. At year end, unreserved fund balance is 9.9 percent and total fund balance is 13.0 percent of total General Fund expenditures, including transfers out.

Proprietary Funds - In addition to governmental funds, the City uses proprietary funds, which provide similar types of information as that contained in the government-wide financial statements, but in more detail. The Water and Sewer Fund and Solid Waste Disposal Fund make up the City's proprietary funds. Unrestricted net assets of the proprietary funds were approximately \$2.15 million at year end. Of this amount, approximately \$1.75 million is attributable to the water supply and sewage disposal systems.

For fiscal year 2003-2004, a combined water/sewer rate increase of 18.6 percent was approved for the Water and Sewer Fund, resulting in the increase in charges for services. The rate increases were necessary to cover increased charges imposed by the Detroit water and sewerage department, increased City operating costs for water/sewer maintenance, and to offset the reduction in interest income.

The Solid Waste Disposal Fund experienced a 37.5 percent decrease in the user fee. This was directly attributed to the renegotiation of the City's waste disposal collection contract and to the South Macomb Disposal Authority's renegotiation for transfer station and disposal services.

General Fund Budgetary Highlights

The City amended its budget to account for events and changes that occurred during the course of the year. A \$198,750 increase to General Fund revenue was made as a result of changes in the accounting for state-shared revenues, an increase in the expected revenue due from the 37th District Court, a decrease in the amount spent on CDBG projects for this fiscal year, and an increase in the expected revenue from a closeout of the "Cops in Schools" grant.

Differences in expenditures between the original budget and the amended budget totaled \$103,000. The budget was amended at year end primarily for the following:

- Increase in appropriations to prevent budget overruns
- Health insurance increased costs
- Changes in salaries

City of Center Line, Michigan

Management's Discussion and Analysis (Continued)

Capital Assets

At June 30, 2004, the City had \$17,951,000 invested in a wide range of capital assets, including land, buildings, police and fire equipment, and the water and sewer utility system. As permitted by GASB No. 34, the City has elected not to report governmental infrastructure assets acquired prior to July 1, 2003.

Significant capital asset activity during the year included improvements to the water and sewer utility system totaling \$805,000. These improvements were financed through the Construction Fund and contributed to the Water and Sewer Fund upon completion.

Long-term Debt

The City's total indebtedness as of June 30, 2004 is \$13,040,000. Of this amount, \$12,145,000 are general obligation bonds, which is well below the debt limit of \$29,265,612. In addition, the City has an installment purchase contract for the 2000 fire ladder truck in the amount of \$50,000 and a Special Assessment Bond in the amount of \$680,000 for the Kramer Homes Sewer Improvement project.

The City also refinanced some of its existing debt during 2004 to take advantage of favorable interest rates. That issue is included in the amount outstanding indebtedness.

The City of Center Line, Michigan maintains an "A3" rating from Moody's Investors Services on its unlimited tax debt and a "BBB+" rating from Standard & Poors.

Economic Factors and Next Year's Budgets and Rates

The development of the 2004-2005 budget was impacted by several negative economic factors. On the revenue side, declining retail sales and a slow state economy were anticipated to result in further decreases in state-shared revenues, while investment income was expected to decline as a result of lower interest rates. On the expenditures side, costs were expected to continue to escalate for health care and pension costs.

Next year's General Fund budget is expected to use \$141,100 in fund balance in order to meet its needs. As a result, fund balance in the General Fund as of the end of the next fiscal year could drop below 10 percent of budgeted expenditures, which is the minimum established funding level goal set by the Council. The City has also attempted to control the escalation of expenses by postponing or eliminating certain nonessential capital outlay requests and by eliminating and/or delaying filling certain vacant positions.

The 2004-2005 tax rate for operating purposes remains the same as the previous year (14.663 mills). The debt millage rate has been reduced .072 mills to 4.3530, while the police and fire pension millage has been increased .7357 mills to 2.2837 due to the recent changes in benefits through the union negotiating process. Overall, next year's tax rate increased .6637 mills from 20.636 to 21.2997.

City of Center Line, Michigan

Management's Discussion and Analysis (Continued)

Request for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the treasurer/finance director at the City of Center Line, 7070 E. Ten Mile Rd., Center Line, MI 48015.

City of Center Line, Michigan

Statement of Net Assets June 30, 2004

	Primary Government			Component Unit - Downtown Development Authority
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 1,651,204	\$ 2,034,222	\$ 3,685,426	\$ 392,710
Receivables - Net:				
Taxes	74,110	-	74,110	-
Customers	-	632,572	632,572	-
Rehabilitation loans	39,377	-	39,377	-
Special assessments	696,106	-	696,106	-
Interest and other	34,002	2,206	36,208	-
State of Michigan	240,740	-	240,740	-
Investment in joint venture (Note 12)	86,900	-	86,900	-
Prepaid expenses	231,551	-	231,551	-
Restricted assets (Notes 3 and 8)	-	183,971	183,971	-
Capital assets - Net (Note 4):				
Assets not depreciated	1,445,365	-	1,445,365	-
Assets being depreciated	3,597,422	12,908,327	16,505,749	-
Total assets	8,096,777	15,761,298	23,858,075	392,710
Liabilities				
Accounts payable	508,481	340,315	848,796	-
Accrued and other liabilities	112,083	179,013	291,096	-
Property taxes collected in advance and refundable deposits	133,429	-	133,429	-
Deferred revenue (Note 6)	6,702	-	6,702	-
Noncurrent liabilities (Note 7):				
Due within one year	280,764	464,236	745,000	-
Due in more than one year	2,134,519	9,818,431	11,952,950	-
Total liabilities	3,175,978	10,801,995	13,977,973	-
Net Assets				
Invested in capital assets - Net of related debt	2,737,787	2,625,660	5,363,447	-
Restricted:				
Streets	46,527	-	46,527	-
Capital projects	258,229	-	258,229	-
Debt service	694,050	-	694,050	-
Revenue bond ordinances	-	183,971	183,971	-
Unrestricted	1,184,206	2,149,672	3,333,878	392,710
Total net assets	\$ 4,920,799	\$ 4,959,303	\$ 9,880,102	\$ 392,710

City of Center Line, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 1,512,749	\$ 590,374	\$ 63,933	\$ -
Public safety	3,293,355	88,244	94,480	-
Public works	1,390,908	4,045	464,742	91,273
Recreation and culture	695,452	63,201	17,236	-
Interest on long-term debt	236,830	-	-	-
Total governmental activities	7,129,294	745,864	640,391	91,273
Business-type activities:				
Water and sewer	2,554,142	1,698,325	-	-
Solid waste disposal	276,684	283,399	-	-
Total business-type activities	2,830,826	1,981,724	-	-
Total primary government	<u>\$ 9,960,120</u>	<u>\$ 2,727,588</u>	<u>\$ 640,391</u>	<u>\$ 91,273</u>
Component unit - Downtown Development Authority	<u>\$ 20,990</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues and transfers:				
Property taxes				
State-shared revenues				
Cable franchise fees				
Investment earnings				
Miscellaneous				
Income from joint venture				
Gain (loss) on sale of assets				
Transfers				
Total general revenues and transfers				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2004

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit -
Governmental	Business-type		Downtown
Activities	Activities	Total	Development
			Authority
\$ (858,442)	\$ -	\$ (858,442)	\$ -
(3,110,631)	-	(3,110,631)	-
(830,848)	-	(830,848)	-
(615,015)	-	(615,015)	-
(236,830)	-	(236,830)	-
(5,651,766)	-	(5,651,766)	-
-	(855,817)	(855,817)	-
-	6,715	6,715	-
-	(849,102)	(849,102)	-
(5,651,766)	(849,102)	(6,500,868)	-
-	-	-	(20,990)
4,934,605	-	4,934,605	94,787
1,053,733	-	1,053,733	-
93,565	-	93,565	-
64,264	24,662	88,926	2,733
40,295	-	40,295	-
3,400	-	3,400	-
20,852	(4,190)	16,662	-
(1,695,631)	1,695,631	-	-
4,515,083	1,716,103	6,231,186	97,520
(1,136,683)	867,001	(269,682)	76,530
6,057,482	4,092,302	10,149,784	316,180
\$ 4,920,799	\$ 4,959,303	\$ 9,880,102	\$ 392,710

City of Center Line, Michigan

Governmental Funds Balance Sheet June 30, 2004

	Major Funds		Other	Total
	General	Construction	Governmental Funds	Governmental Funds
Assets				
Cash and cash equivalents (Note 3)	\$ 1,014,440	\$ 312,024	\$ 324,740	\$ 1,651,204
Receivables - Net:				
Property taxes	96,158	-	-	96,158
Rehabilitation loans	-	-	39,377	39,377
Special assessments	694,050	-	2,056	696,106
Interest and other	34,002	-	-	34,002
State of Michigan	202,549	-	38,191	240,740
Prepaid expenses	231,551	-	-	231,551
Total assets	<u>\$ 2,272,750</u>	<u>\$ 312,024</u>	<u>\$ 404,364</u>	<u>\$ 2,989,138</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 310,349	\$ 96,983	\$ 101,149	\$ 508,481
Accrued and other liabilities	78,661	-	-	78,661
Property taxes collected in advance and refundable deposits	133,429	-	-	133,429
Deferred revenue (Note 6)	790,208	-	41,433	831,641
Total liabilities	1,312,647	96,983	142,582	1,552,212
Fund Balances				
Reserved for prepaid expenses	231,551	-	-	231,551
Unreserved:				
Designated (Note 13)	728,552	-	-	728,552
Undesignated	-	215,041	-	215,041
Unreserved, reported in:				
Special Revenue Funds	-	-	218,594	218,594
Capital Projects Funds	-	-	43,188	43,188
Total fund balances	960,103	215,041	261,782	1,436,926
Total liabilities and fund balances	<u>\$ 2,272,750</u>	<u>\$ 312,024</u>	<u>\$ 404,364</u>	<u>\$ 2,989,138</u>

City of Center Line, Michigan

Governmental Funds **Reconciliation of the Balance Sheet of Governmental Funds to the** **Statement of Net Assets** **Year Ended June 30, 2004**

Total Fund Balances of Governmental Funds	\$ 1,436,926
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	5,042,787
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Investment in joint venture is not included as an asset in the governmental funds	86,900
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Receivables are expected to be collected over several years and are not available to pay for current year expenditures:	
Property taxes	108,841
Special assessments	694,050

Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:	
Notes and bonds payable	(2,305,000)
Compensated absences	(110,283)

Accrued interest payable is not included as a liability in the governmental funds	<u>(33,422)</u>
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Net Assets of Governmental Activities	<u>\$ 4,920,799</u>
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City of Center Line, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

	Major Funds		Other	Total
	General	Construction	Governmental Funds	Governmental Funds
Revenue				
Property taxes	\$ 5,033,425	\$ -	\$ -	\$ 5,033,425
Intergovernmental revenue:				
Federal sources	158,413	-	-	158,413
State sources	1,057,417	-	464,742	1,522,159
Special assessments	86,756	-	4,517	91,273
Fees and charges	553,166	-	-	553,166
Licenses and permits	132,351	-	-	132,351
Interest income	56,148	5,630	2,486	64,264
Other	376,166	-	-	376,166
Total revenue	7,453,842	5,630	471,745	7,931,217
Expenditures				
General government:				
Legislative	13,327	-	-	13,327
District Court	336,077	-	-	336,077
City assessor	67,894	-	-	67,894
City manager - Clerk	482,711	-	-	482,711
City treasurer	206,950	-	-	206,950
Other general government	435,194	-	-	435,194
Administration	-	-	46,474	46,474
Public safety:				
Public safety department	3,007,750	-	-	3,007,750
Protective inspection	127,951	-	-	127,951
Public works - DPW and street maintenance	870,395	-	303,636	1,174,031
Recreation and culture:				
Recreation	302,218	-	-	302,218
Library	298,534	-	-	298,534
Debt service	326,792	-	-	326,792
Construction and capital outlay	-	915,680	33,864	949,544
Total expenditures	6,475,793	915,680	383,974	7,775,447
Excess of Revenue Over (Under) Expenditures	978,049	(910,050)	87,771	155,770
Other Financing Sources (Uses)				
Proceeds from refunding bonds	1,490,000	-	-	1,490,000
Payment to refunding bond escrow agent	(1,483,709)	-	-	(1,483,709)
Transfers in	-	-	97,953	97,953
Transfers out	(905,201)	-	(82,953)	(988,154)
Total other financing sources (uses)	(898,910)	-	15,000	(883,910)
Net Changes in Fund Balances	79,139	(910,050)	102,771	(728,140)
Fund Balances - Beginning of year, as restated (Note 1)	880,964	1,125,091	159,011	2,165,066
Fund Balances - End of year	<u>\$ 960,103</u>	<u>\$ 215,041</u>	<u>\$ 261,782</u>	<u>\$ 1,436,926</u>

City of Center Line, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances of Governmental Funds \$ (728,140)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$ (404,228)	
Capital outlay - Assets of governmental activities	<u>4,900</u>	(399,328)

Revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end:

Property taxes	(12,064)	
Special assessment	<u>(86,756)</u>	(98,820)

Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid

(20,038)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)

205,000

Proceeds from refunding bonds and payment to refunding bond escrow agent are reported as other financing sources in the governmental funds, but not in the statement of activities:

Proceeds from refunding bonds	(1,490,000)	
Payment to refunding bond escrow agent - Net of bond costs		1,388,709

Increase in accumulated employee sick and vacation pay are recorded when earned in the statement of activities

2,534

Revenue from a joint venture reported in the statement of activities that does not provide current financial resources is not reported as revenue in the governmental funds

3,400

Change in Net Assets of Governmental Activities **\$ (1,136,683)**

City of Center Line, Michigan

Proprietary Funds Enterprise Funds Statement of Net Assets June 30, 2004

	Major Fund - Water and Sewer	Nonmajor Fund - Solid Waste Disposal	Total
Assets			
Current assets:			
Cash and investments (Note 3)	\$ 1,700,177	\$ 334,045	\$ 2,034,222
Receivables:			
Customers	529,093	103,479	632,572
Interest and other	2,206	-	2,206
Total current assets	2,231,476	437,524	2,669,000
Long-term assets:			
Restricted assets (Notes 3 and 8)	183,971	-	183,971
Capital assets - Net (Note 4)	12,908,327	-	12,908,327
Total long-term assets	13,092,298	-	13,092,298
Total assets	15,323,774	437,524	15,761,298
Liabilities			
Current liabilities:			
Accounts payable	296,991	43,324	340,315
Accrued liabilities	179,013	-	179,013
Current portion of long-term debt (Note 7)	464,236	-	464,236
Total current liabilities	940,240	43,324	983,564
Long-term debt - Net of current portion (Note 7)	9,818,431	-	9,818,431
Total liabilities	10,758,671	43,324	10,801,995
Net Assets			
Invested in capital assets - Net of related debt	2,625,660	-	2,625,660
Restricted - Revenue bond ordinances	183,971	-	183,971
Unrestricted	1,755,472	394,200	2,149,672
Total net assets	\$ 4,565,103	\$ 394,200	\$ 4,959,303

City of Center Line, Michigan

Proprietary Funds Enterprise Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2004

	Major Fund - Water and Sewer	Nonmajor Fund - Solid Waste Disposal	Total
Operating Revenue			
Water sales and sewage disposal revenue	\$ 1,698,325	\$ -	\$ 1,698,325
Solid waste disposal revenue	<u>-</u>	<u>283,399</u>	<u>283,399</u>
Total operating revenue	1,698,325	283,399	1,981,724
Operating Expenses			
Cost of water and sewage disposal	1,063,293	-	1,063,293
Cost of solid waste disposal	-	268,113	268,113
Salaries and fringe benefits	234,391	-	234,391
Utilities	18,782	-	18,782
Depreciation	265,782	-	265,782
Repairs and maintenance	295,179	-	295,179
Insurance	4,520	-	4,520
Office supplies	2,796	2,072	4,868
Professional services	5,038	2,500	7,538
Operating supplies	49,198	-	49,198
Rent	35,500	4,000	39,500
Vehicle expenses	1,990	-	1,990
Other	<u>8,687</u>	<u>-</u>	<u>8,687</u>
Total operating expenses	<u>1,985,156</u>	<u>276,685</u>	<u>2,261,841</u>
Operating Income (Loss)	(286,831)	6,714	(280,117)
Nonoperating Revenue (Expenses)			
Loss on sale of equipment	(2,240)	(1,950)	(4,190)
Interest income	20,417	4,245	24,662
Interest expense	<u>(568,985)</u>	<u>-</u>	<u>(568,985)</u>
Total nonoperating revenue (expenses)	<u>(550,808)</u>	<u>2,295</u>	<u>(548,513)</u>
Income (Loss) - Before transfers and capital contributions	(837,639)	9,009	(828,630)
Transfer In	890,201	-	890,201
Capital Contributions - From other funds	<u>805,430</u>	<u>-</u>	<u>805,430</u>
Increase in Net Assets	857,992	9,009	867,001
Net Assets - Beginning of year, as restated (Note 1)	<u>3,707,111</u>	<u>385,191</u>	<u>4,092,302</u>
Net Assets - End of year	<u><u>\$ 4,565,103</u></u>	<u><u>\$ 394,200</u></u>	<u><u>\$ 4,959,303</u></u>

City of Center Line, Michigan

Proprietary Funds Enterprise Funds Statement of Cash Flows Year Ended June 30, 2004

	Major Fund - Water and Sewer	Nonmajor Fund - Solid Waste Disposal	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 1,724,608	\$ 333,814	\$ 2,058,422
Payments to suppliers for water supply, sewage disposal, and solid waste disposal	(1,015,716)	(291,798)	(1,307,514)
Payments to other suppliers and employees	(656,081)	(8,573)	(664,654)
Net cash provided by operating activities	52,811	33,443	86,254
Cash Flows from Capital and Related Financing Activities			
Transfers from other funds	890,201	-	890,201
Proceeds from long-term debt	3,810,000	-	3,810,000
Principal and interest paid on long-term debt	(4,728,009)	-	(4,728,009)
Net cash used in capital and related financing activities	(27,808)	-	(27,808)
Cash Flows from Investing Activities - Interest received on investments	18,837	4,245	23,082
Net Increase in Cash and Cash Equivalents	43,840	37,688	81,528
Cash and Cash Equivalents - Beginning of year	1,840,308	296,357	2,136,665
Cash and Cash Equivalents - End of year	<u>\$ 1,884,148</u>	<u>\$ 334,045</u>	<u>\$ 2,218,193</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ 1,700,177	\$ 334,045	\$ 2,034,222
Restricted assets	183,971	-	183,971
Total	<u>\$ 1,884,148</u>	<u>\$ 334,045</u>	<u>\$ 2,218,193</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities			
Operating income (loss)	\$ (286,831)	\$ 6,714	\$ (280,117)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation and amortization	265,782	-	265,782
Changes in assets and liabilities:			
Receivables	26,284	50,416	76,700
Accounts payable and accrued liabilities	47,576	(23,687)	23,889
Net cash provided by operating activities	<u>\$ 52,811</u>	<u>\$ 33,443</u>	<u>\$ 86,254</u>

City of Center Line, Michigan

Fiduciary Funds Statement of Net Assets Pension and Other Employee Benefit Trust Funds Retiree Healthcare Fund June 30, 2004

Assets

Cash (Note 3)	\$ 7,647
Investments (Note 3):	
Common stocks	7,707,296
Corporate bonds	3,353,995
Mutual funds	202,796
Interlocal agreement investment pools	45,313
Accrued interest receivable	<u>5,006</u>
Total assets	<u>11,322,053</u>

Net Assets

Held in trust for pension benefits	11,276,740
Held in trust for retiree health care benefits	<u>45,313</u>
Total net assets	<u><u>\$ 11,322,053</u></u>

City of Center Line, Michigan

Fiduciary Funds Statement of Changes in Net Assets Pension and Other Employee Benefit Trust Funds Retiree Healthcare Fund Year Ended June 30, 2004

Additions

Investment income:	
Interest and dividends	\$ 164,218
Net appreciation in fair value of investments	1,555,458
Less investment expenses	<u>(93,253)</u>
Net investment income	1,626,423
Contributions:	
Employer	20,516
Employees	<u>172,604</u>
Total contributions	<u>193,120</u>
Total additions	1,819,543

Deductions

Benefit payments	736,711
Insurance	17,544
Contribution refunds	44,471
Administrative expenses	<u>4,870</u>
Total deductions	<u>803,596</u>

Net Increase 1,015,947

Net Assets Held in Trust for Pension and Other Employee Benefits

Beginning of year	<u>10,306,106</u>
End of year	<u><u>\$ 11,322,053</u></u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Center Line (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected five-member council. The accompanying financial statements present the City and its discretely presented component unit, an entity for which the City is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City, although the City has the ability to impose its will over the entities.

Discretely Presented Component Unit - The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Downtown Development Authority's governing body, consisting of 11 individuals, is selected by the City Council. In addition, the Downtown Development Authority's budget is subject to approval by the City Council.

The City has an Economic Development Corporation and a Building Authority; however, there was no financial activity during the year.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The major governmental funds and major Enterprise Fund are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Construction Fund - The Construction Fund accounts for the development of capital facilities that are financed with General Obligation Water and Sewer Bonds. The assets constructed are contributed to the Water and Sewer Enterprise Fund.

The City reports the following major Enterprise Fund:

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fund type:

Pension and Other Employee Benefit Trust Funds - The Pension and Other Employee Benefit Trust Funds account for the accumulation of resources for the payment of pension and retiree healthcare benefits to employees of the City.

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures relating to compensated absences are recorded only when payment is due.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its Enterprise Fund.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Property Tax Revenue - Properties are assessed as of December 31 and the related taxes become a lien at that time. These taxes are billed on July 1 of the following year and are due on August 31 with the final collection date of February 28 before they are added to the county tax rolls.

The 2003 taxable valuation (real and personal property) of the City totaled \$237,953,000, on which ad valorem taxes levied consisted of 14.663 mills for the City's operating purposes, 4.425 mills for debt service purposes, and 1.548 mills for the public safety pension. The ad valorem taxes generated \$3,489,000 for general operations, \$1,053,000 for debt retirement, and \$368,000 for public safety pension benefits. These amounts are recorded in the General Fund as tax revenue.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, utility systems, etc.) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

As permitted by GASB Statement No. 34, the City has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to July 1, 2003.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Utility system	70 years
Land improvements	20 years
Buildings and improvements	50 years
Machinery and equipment	5 to 20 years

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only when due for payment (generally for employee terminations as of year end).

Long-term Obligations - In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Accounting Changes

GASB No. 34 - Effective July 1, 2003, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34), and related statements. Changes to the City's financial statements as a result of GASB No. 34 are as follows:

- A management's discussion and analysis (MD&A) section providing analysis of the City's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the City's activities have been provided.
- The fund financial statements focus on major funds rather than fund types.
- The governmental activities column includes bonds and other long-term obligations totaling \$2,528,000 previously reported in the General Long-term Debt Account Group.

Note 1 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition - Concurrent with the adoption of GASB No. 34, the City changed the availability period for recognizing revenue in governmental funds from 30 days to 60 days. The change permits the City to more accurately report those revenues in governmental funds that are used to pay liabilities recognized as of year end. Fund balance in the General Fund has been increased by \$208,068 at July 1, 2003 as a result of this change. The effect of this change on the excess of revenue over expenditures in the General Fund for 2004 and 2003 was not significant.

Enterprise Fund Long-term Debt - Prior to July 1, 2003, the City reported \$10,500,000 of General Obligation Water and Sewer Improvement Bonds in the General Long-term Debt Account Group. The proceeds from the bonds were used for water and sewer utility system repairs and improvements; assets constructed were contributed to the Water and Sewer Enterprise Fund. In order to more accurately report the bond obligations and the related assets, the City has transferred the bond obligations to the Water and Sewer Enterprise Fund as of July 1, 2003 resulting in a reduction to net assets as of that date totaling \$10,500,000.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - The annual budget is prepared by the City administration and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end, and encumbrances are not included as expenditures. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered spent when goods are received or services are rendered. During the year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds - Transfers out from the General Fund exceeded appropriations by approximately \$875,000 during the year. This excess was offset by a positive variance in debt service expenditures totaling approximately \$887,000 and was the result of a difference in how debt service expenditures related to the General Obligation Water and Sewer Bonds were accounted for. The bond payments are funded through a property tax levy accounted for in the General Fund. The budget as adopted anticipated that the debt service expenditures would be reported in the General Fund; however, the tax monies were instead transferred to the Water and Sewer Fund where the debt service payments were accounted for.

In addition, the City did not budget the payment to the refunded bond escrow agent totaling approximately \$1,484,000; this unfavorable variance was offset by a favorable variance in the proceeds from refunding bonds totaling \$1,490,000.

State Construction Code Fees - The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity for the year ended June 30, 2004 is as follows:

Cumulative shortfall - July 1, 2003		\$ (263,039)
Building permit revenue		39,117
Related expenditures:		
Direct costs	\$ 127,951	
Estimated indirect costs	<u>12,795</u>	
Total construction code expenditures		<u>140,746</u>
Excess of expenditures over revenue		<u>(101,629)</u>
Cumulative shortfall - June 30, 2004		<u><u>\$ (364,668)</u></u>

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is also allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The City has adopted an investment policy in accordance with state law and management believes that the City's deposits and investment are in accordance with statutory authority.

The Police and Fire Retirement System Fund, Police and Fire Retiree Health Care Fund, and General Retiree Health Care Fund are also authorized to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, certain real estate investments, and other specified investment vehicles.

At June 30, 2004, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Total Primary Government	Fiduciary Funds	Component Units
Cash and investments	\$ 1,651,204	\$ 2,034,222	\$ 3,685,426	\$ 11,317,047	\$ 392,710
Restricted assets	-	183,971	183,971	-	-
Total	<u>\$ 1,651,204</u>	<u>\$ 2,218,193</u>	<u>\$ 3,869,397</u>	<u>\$ 11,317,047</u>	<u>\$ 392,710</u>

City of Center Line, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Deposits and Investments (Continued)

Deposits and investments are categorized as follows in accordance with GASB Statement No. 3:

	Primary Government	Fiduciary Funds	Component Units
Bank deposits (checking accounts)	\$ 868,723	\$ 7,647	\$ -
Investments in securities, mutual funds, and similar vehicles	2,999,504	11,309,400	392,710
Petty cash or cash on hand	1,170	-	-
Total	<u>\$ 3,869,397</u>	<u>\$ 11,317,047</u>	<u>\$ 392,710</u>

Deposits - The bank balance of the City's deposits totaled \$954,000, of which approximately \$208,000 is covered by federal depository insurance and the remainder was uninsured and uncollateralized.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which funds are deposited and assesses the level of risk of each institution; only these institutions with an acceptable level of risk are used as depositories.

Investments - Investments are categorized into these three categories of credit risk, as follows:

Category 1 - Insured or registered, with securities held by the City or its agent in the City's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

City of Center Line, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Deposits and Investments (Continued)

At June 30, 2004, the City's investments were categorized as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary government - Investments not subject to categorization:				
Bank investment pools	\$ -	\$ -	\$ -	\$ 962,067
Interlocal agreement investment pools	-	-	-	309,569
Mutual funds	-	-	-	1,727,868
Total primary government	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,999,504</u>
Fiduciary funds:				
Corporate bonds and securities	\$ -	\$ -	\$ 3,353,995	\$ 3,353,995
Common and preferred stock	-	-	7,707,296	7,707,296
Investments not subject to categorization:				
Interlocal agreement investment pools	-	-	-	45,313
Mutual funds	-	-	-	202,796
Total fiduciary funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,061,291</u>	<u>\$ 11,309,400</u>
Component units - Investments not subject to categorization - Interlocal agreement investment pools	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 392,710</u>	<u>\$ 392,710</u>

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The mutual funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act. Investments under the interlocal agreement are regulated by the Urban Cooperation Act. The fair value of the position in the bank investment pools and interlocal agreement investment pools is the same as the value of the pool shares.

City of Center Line, Michigan

Notes to Financial Statements June 30, 2004

Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 1,445,365	\$ -	\$ -	\$ 1,445,365
Capital assets being depreciated				
Land improvements	654,546	-	-	654,546
Buildings and improvements	2,295,126	-	-	2,295,126
Machinery and equipment	3,890,644	4,900	-	3,895,544
Subtotal	6,840,316	4,900	-	6,845,216
Accumulated depreciation:				
Land improvements	291,310	32,728	-	324,038
Buildings and improvements	716,340	45,883	-	762,223
Machinery and equipment	1,835,916	325,617	-	2,161,533
Subtotal	2,843,566	404,228	-	3,247,794
Net capital assets being depreciated	3,996,750	(399,328)	-	3,597,422
Net capital assets	<u>\$ 5,442,115</u>	<u>\$ (399,328)</u>	<u>\$ -</u>	<u>\$ 5,042,787</u>
Business-type Activities				
Capital assets being depreciated:				
Utility system	\$ 13,511,952	\$ 805,430	\$ (8,254)	\$ 14,309,128
Buildings and improvements	1,463,430	-	-	1,463,430
Machinery and equipment	459,893	-	-	459,893
Subtotal	15,435,275	805,430	(8,254)	16,232,451
Accumulated depreciation:				
Utility system	2,124,820	212,571	(6,014)	2,331,377
Buildings and improvements	551,603	35,637	-	587,240
Machinery and equipment	387,933	17,574	-	405,507
Subtotal	3,064,356	265,782	(6,014)	3,324,124
Net capital assets	<u>\$ 12,370,919</u>	<u>\$ 539,648</u>	<u>\$ (2,240)</u>	<u>\$ 12,908,327</u>

City of Center Line, Michigan

Notes to Financial Statements June 30, 2004

Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the governmental activities as follows:

General government	\$ 68,118
Public safety	157,324
Public works	84,834
Recreation and culture	<u>93,952</u>
Total governmental activities	<u>\$ 404,228</u>

Note 5 - Interfund Transfers

Interfund transfers reported in the fund financial statements are comprised of the following:

	Transfers Out		
	Other Governmental		
	General Fund	Funds	Total
Transfers in:			
Water and Sewer Fund	\$ 890,201 (1)	\$ -	\$ 890,201
Other governmental funds	<u>15,000 (2)</u>	<u>82,953 (3)</u>	<u>97,953</u>
Total	<u>\$ 905,201</u>	<u>\$ 82,953</u>	<u>\$ 988,154</u>

(1) Transfer of debt service tax revenues collected in the General Fund for retirement of Unlimited Tax General Obligation Water and Sewer Improvement Bonds reported in the Water and Sewer Enterprise Fund.

(2) Transfer of Act 51 revenue-sharing payments from the Major Streets Fund to the Local Streets Fund as permitted by State law.

(3) Transfer of discretionary funds to be used for the benefit of the City.

City of Center Line, Michigan

Notes to Financial Statements June 30, 2004

Note 6 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. As of June 30, 2004, the components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessment receivables	\$ 694,050	\$ -
Delinquent personal property tax receivables	91,512	-
Rehabilitation loan receivables	39,377	-
Other	-	6,702
Total	<u>\$ 824,939</u>	<u>\$ 6,702</u>

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties and will be repaid from amounts levied against those properties benefited from the construction. At June 30, 2004, there is \$694,050 of special assessments receivable in the future. In the event that a deficiency exists because unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Delinquent special assessments receivable at June 30, 2004 are not material. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

City of Center Line, Michigan

Notes to Financial Statements June 30, 2004

Note 7 - Long-term Debt

Long-term debt activity for governmental activities is summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
Unlimited Tax General Obligation Bonds:							
1996 Municipal Building Bonds:							
Amount of issue - \$2,000,000	4.4%-	\$80,000-					
Maturing through 2016	6.30%	\$170,000	\$ 1,560,000	\$ -	\$ 1,475,000 *	\$ 85,000	\$ 85,000
2004 Refunding Bonds:							
Amount of issue - \$1,490,000	2.00%-	\$40,764-					
Maturing through 2020	3.80%	\$127,915	-	1,490,000	-	1,490,000	40,764
Special Assessment Bonds:							
2002 Kramer Homes Bonds:							
Amount of issue - \$800,000	3.25%-	\$80,000-					
Maturing through 2012	4.35%	\$85,000	760,000	-	80,000	680,000	85,000
Installment purchase agreements -							
2000 Fire Truck:							
Amount of issue - \$205,000	4.95%-	\$30,000-					
Maturing through 2005	5.40%	\$50,000	95,000	-	45,000	50,000	50,000
Accumulated compensated absences			112,816	-	2,533	110,283	20,000
Total governmental activities			\$ 2,527,816	\$ 1,490,000	\$ 1,602,533	\$ 2,415,283	\$ 280,764

* Portion of bonds outstanding was advance refunded during 2004.

Long-term debt activity for business-type activities is summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities							
Revenue Bonds:							
1991 Water and Sewer Bonds:							
Amount of issue - \$285,000	7.05%-	\$15,000-					
Maturing through 2011	7.25%	\$25,000	\$ 180,000	\$ -	\$ 15,000	\$ 165,000	\$ 15,000
Unlimited Tax General Obligation Bonds:							
1986 Water and Sewer Bonds:							
Amount of issue - \$800,000		\$75,000-					
Maturing through 2006	7.50%	\$100,000	250,000	-	250,000 *	-	-
1998 Water and Sewer Bonds:							
Amount of issue - \$995,000	4.50%-	\$50,000-					
Maturing through 2018	5.00%	\$75,000	825,000	-	775,000 *	50,000	50,000
1998B Water and Sewer Bonds:							
Amount of issue - \$3,600,000	3.95%-	\$75,000-					
Maturing through 2019	6.00%	\$375,000	3,425,000	-	75,000	3,350,000	100,000
2000 Water and Sewer Bonds:							
Amount of issue - \$3,000,000	5.20%-	\$75,000-					
Maturing through 2020	6.00%	\$325,000	2,850,000	-	2,525,000 *	325,000	75,000
2002 Water and Sewer Fund Bonds:							
Amount of issue - \$2,405,000	4.50%-	\$50,000-					
Maturing through 2020	6.50%	\$275,000	2,405,000	-	50,000	2,355,000	50,000
2002 Kramer Homes Water and Sewer Bonds:							
Amount of issue - \$800,000	3.25%-	\$65,000-					
Maturing through 2012	4.35%	\$100,000	745,000	-	65,000	680,000	70,000
2004 Refunding Bonds:							
Amount of issue - \$3,810,000	2.00%-	\$104,236-					
Maturing through 2020	3.80%	\$327,085	-	3,810,000	-	3,810,000	104,236
Less - Unamortized deferred charges			-	(460,000)	(7,667)	(452,333)	-
Total business-type activities			\$ 10,680,000	\$ 3,350,000	\$ 3,747,333	\$ 10,282,667	\$ 464,236

* Portion of bonds outstanding was advance refunded during 2004.

City of Center Line, Michigan

Notes to Financial Statements June 30, 2004

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 260,764	\$ 80,451	\$ 341,215	\$ 464,236	\$ 426,812	\$ 891,048
2006	170,745	69,465	240,210	539,255	422,963	962,218
2007	142,632	63,706	206,338	497,368	381,888	879,256
2008	144,038	58,011	202,049	580,962	380,488	961,450
2009	172,151	51,565	223,716	552,849	357,076	909,925
2010-2014	765,254	168,329	933,583	3,289,746	1,310,696	4,600,442
2015-2019	558,045	63,373	621,418	4,301,955	580,146	4,882,101
2020	91,371	1,730	93,101	508,629	10,634	519,263
Total	<u>\$ 2,305,000</u>	<u>\$ 556,630</u>	<u>\$ 2,861,630</u>	<u>\$ 10,735,000</u>	<u>\$ 3,870,703</u>	<u>\$ 14,605,703</u>

Advance Refundings - During the year, the City issued \$5,300,000 in Unlimited Tax General Obligation Bonds with an average interest rate of 3.22 percent. The proceeds from the refunding bonds were used to advance refund outstanding Unlimited Tax General Obligation Bonds reported in the governmental and business-type activities totaling \$1,395,000 and \$3,350,000, respectively, with an average interest rate of 5.34 percent. The net proceeds of approximately \$5,125,000 (after payment of \$175,000 in underwriting fees, insurance, and other issuance costs) plus an additional \$43,000 of General Fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the governmental activities and business-type activities. The advance refunding reduced total debt service payments over the next 17 years by approximately \$342,000, which represents an economic gain of approximately \$243,000.

Note 8 - Restricted Assets

In accordance with revenue bond provisions, assets of the Water and Sewer Fund have been restricted for the funding of required reserves. The following is a summary of restricted assets at June 30, 2004:

Revenue bond requirements:	
Operation and maintenance	\$ 143,281
Bond reserve	29,500
Debt service:	
Principal	4,940
Interest	<u>6,250</u>
Total requirements - June 30, 2004	<u>\$ 183,971</u>

Net assets at June 30, 2004 have been restricted for the amount of the required reserves.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims, and participates in the Michigan Municipal League Risk Pool for claims relating to property loss, torts, errors and omissions, and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 10 - Defined Benefit Pension Plans

City of Center Line Police and Fire Retirement System

Plan Description

The City of Center Line Police and Fire Retirement System (the "System") is the administrator of a single-employer defined benefit pension plan that covers public safety employees of the City. The System provides retirement, death, disability, and health benefits to plan members and their beneficiaries. At June 30, 2003, the date of the most recent actuarial valuation, membership consisted of 36 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 28 current active employees. The plan does not issue a separate financial report.

Contributions

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due, and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the System was established by City ordinances and State statute (P.A. 345) and requires a contribution of 9.25 percent of compensation from employees. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Annual Pension Cost

For the year ended June 30, 2004, the City's annual pension cost was \$5,516, which was equal to the actual and required contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2002 using the entry age actuarial funding method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return, (b) projected salary increases of 5 percent to 8 percent per year, and (c) no cost-of-living adjustments. Both (a) and (b) include an inflation component of 5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period is 18 years.

Note 10 - Defined Benefit Pension Plans (Continued)

Reserves

At June 30, 2004, the plan's legally required reserves have been fully funded, as follows:

Reserve for employees' contributions	\$ 1,446,303
Reserve for retiree benefit payments	61,879

Three-year Trend Information

	Fiscal Year Ended June 30		
	2002	2003	2004
Annual pension cost (APC)	\$ -	\$ -	\$ 5,516
Percentage of APC contributed	-	-	100%
Net pension obligation	\$ -	\$ -	\$ -

Michigan Municipal Employees' Retirement System

Plan Description

The City participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for municipalities throughout the State of Michigan. The system covers substantially all City employees except for those in the public safety department. The MMERS provides retirement, disability, and death benefits to plan members and their beneficiaries.

The MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MMERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy

The obligation to contribute to and maintain the MMERS for these employees was established by negotiation with the City's contractual bargaining units and requires a contribution from covered employees ranging from 3 percent to 5 percent of gross wages.

Note 10 - Defined Benefit Pension Plans (Continued)

Annual Pension Cost

For the year ended June 30, 2004, the City's annual pension cost of \$68,928 was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2001, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 8.7 percent per year, and (c) no cost-of-living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 25 years.

Three-year Trend Information

	Fiscal Year Ended June 30		
	2004	2003	2002
Annual pension cost (APC)	\$ 68,928	\$ 39,872	\$ -
Percentage of APC contributed	100	100	-
Net pension obligation	-	-	-

Schedule of Funding Progress

	Actuarial Valuation as of December 31		
	2003	2002	2001
Actuarial value of assets	\$ 6,223,556	\$ 6,096,223	\$ 6,231,687
Actuarial accrued liability (AAL)			
(entry age)	\$ 7,564,089	\$ 7,028,102	\$ 6,444,196
Unfunded AAL (UAAL)	\$ 1,340,533	\$ 931,879	\$ 212,509
Funded ratio	82.3%	86.7%	96.7%
Covered payroll	\$ 1,249,000	\$ 1,371,000	\$ 1,287,000
UAAL as a percentage of covered payroll	107.3%	68.0%	16.5%

Note 11 - Postemployment Benefits

The City provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 69 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for post-employment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$706,000.

Note 12 - Joint Ventures

The City is a member of the South Macomb Disposal Authority, which provides refuse disposal services to participating municipalities in Macomb County, Michigan. Other members include the cities of Eastpointe, Roseville, St. Clair Shores, and Warren, Michigan. The City appoints one member to the joint venture's governing board, which then approves the annual budget. The City's equity interest in the Authority's operating reserve totaling \$86,900 is recorded within the governmental activities column of the statement of net assets. As of the date of this report, the Authority has reserves totaling approximately \$7,500,000 that have been designated for self-insurance activities; the participating communities' equity interest in the insurance reserve is not determinable. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Complete financial statements for the South Macomb Disposal Authority can be obtained from the administrative offices at 20001 Pleasant Avenue, St. Clair Shores, Michigan.

The City is also a member of the 37th District Court, State of Michigan, which provides services to the residents of the cities of Center Line and Warren. As of the most recent financial statements available, the District Court has no equity. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Complete financial statements for the 37th District Court, State of Michigan can be obtained from the administrative offices at 8300 Common Road, Warren, Michigan.

City of Center Line, Michigan

Notes to Financial Statements June 30, 2004

Note 13 - Designated Fund Balance

Fund balance in the General Fund has been designated for the following purposes:

Subsequent year's budget	\$ 141,000
Installment purchase agreements	70,000
Accumulated compensated absences	110,283
Capital expenditures	<u>407,269</u>
Total	<u>\$ 728,552</u>

Note 14 - Contingency

The City has entered into an administrative consent order with the Michigan Department of Environmental Quality regarding sanitary sewer overflows that have occurred within the City. According to the provisions of the order, the City is required to continue a corrective action plan, including the evaluation of its storm and sanitary sewer systems, to eliminate future overflows.

The City has complied with all requirements to date of the administrative consent order, which included completing a plan for footing drain disconnection and sump pump installation in affected areas. The final nature of these and other improvements, including the estimated cost and sources of funding, is not known at this time.

Required Supplemental Information

City of Center Line, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 5,006,120	\$ 5,023,120	\$ 5,033,425	\$ 10,305
Intergovernmental revenue:				
Federal sources	155,000	162,500	158,413	(4,087)
State sources	1,147,000	1,269,000	1,057,417	(211,583)
Special assessments	86,760	86,760	86,756	(4)
Fees and charges	439,500	522,500	553,166	30,666
Licenses and permits	137,100	137,100	132,351	(4,749)
Interest income	60,000	52,000	56,148	4,148
Other	382,150	359,400	376,166	16,766
Total revenue	7,413,630	7,612,380	7,453,842	(158,538)
Expenditures				
General government:				
Legislative	12,680	12,680	13,327	(647)
District Court	339,010	339,010	336,077	2,933
City assessor	77,640	77,640	67,894	9,746
City manager - Clerk	535,070	535,070	482,711	52,359
City treasurer	202,840	206,590	206,950	(360)
Other general government	514,190	459,190	435,194	23,996
Public safety:				
Public safety department	2,902,220	2,986,170	3,007,750	(21,580)
Protective inspection	119,490	126,230	127,951	(1,721)
Public works - DPW and street maintenance	851,820	877,030	870,395	6,635
Recreation and culture:				
Recreation	348,250	348,250	302,218	46,032
Library	297,100	305,400	298,534	6,866
Debt service	1,213,320	1,213,320	326,792	886,528
Total expenditures	7,413,630	7,486,580	6,475,793	1,010,787
Excess of Revenue Over (Under) Expenditures	-	125,800	978,049	852,249
Other Financing Sources (Uses)				
Proceeds from refunding bonds	-	-	1,490,000	1,490,000
Payment to refunding bond escrow agent	-	-	(1,483,709)	(1,483,709)
Transfers out	-	(30,000)	(905,201)	(875,201)
Total other financing sources (uses)	-	(30,000)	(898,910)	(868,910)
Net Change in Fund Balances	-	95,800	79,139	(16,661)
Fund Balances - Beginning of year, as restated	672,896	880,964	880,964	-
Fund Balances - End of year	<u>\$ 672,896</u>	<u>\$ 976,764</u>	<u>\$ 960,103</u>	<u>\$ (16,661)</u>

City of Center Line, Michigan

Retirement System Required Supplemental Information Police and Fire Retirement System Schedule of Funding Progress June 30, 2004

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) AAL	Funded Ratio (Percent)	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
6/30/98	\$ 11,480,955	\$ 9,895,373	\$ (1,585,582)	116.0	\$ 1,161,488	-
6/30/99	12,414,437	9,940,916	(2,473,521)	124.9	1,339,886	-
6/30/00	13,303,718	10,129,813	(3,173,905)	131.3	1,406,451	-
6/30/01	13,953,545	10,461,274	(3,492,271)	133.4	1,503,401	-
6/30/02	13,374,923	10,602,669	(2,772,254)	126.1	1,501,053	-
6/30/03	12,579,542	11,465,738	(1,113,804)	109.7	1,543,963	-

City of Center Line, Michigan

Retirement System Required Supplemental Information Police and Fire Retirement System Schedule of Employer Contributions June 30, 2004

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1999	\$ 95,694	100.0
2000	65,750	100.0
2001	26,168	100.0
2002	-	-
2003	-	-
2004	5,516	100.0

The information presented above was determined as part of the actuarial valuation at the dates indicated. Additional information as of June 30, 2003, the date of the latest actuarial valuation, follows:

Actuarial cost method	Entry age
Amortization method	Level percent, closed
Remaining amortization period	18 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.50%
Projected salary increases*	5.00%-8.00%
Cost of living adjustments	None
*Includes inflation at	5.00%

City of Center Line, Michigan

	Special Revenue Funds			
	Major Streets	Local Streets	Rehabilitation	Total Special Revenue Funds
Assets				
Cash and investments	\$ 92,166	\$ 12,319	\$ 172,067	\$ 276,552
Receivables - Net:				
Rehabilitation loans	-	-	39,377	39,377
Special assessments	-	-	-	-
State of Michigan	27,258	10,933	-	38,191
Total assets	<u>\$ 119,424</u>	<u>\$ 23,252</u>	<u>\$ 211,444</u>	<u>\$ 354,120</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 79,730	\$ 16,419	\$ -	\$ 96,149
Deferred revenue	-	-	39,377	39,377
Total liabilities	79,730	16,419	39,377	135,526
Fund Balances - Unreserved and undesignated	<u>39,694</u>	<u>6,833</u>	<u>172,067</u>	<u>218,594</u>
Total liabilities and fund balances	<u>\$ 119,424</u>	<u>\$ 23,252</u>	<u>\$ 211,444</u>	<u>\$ 354,120</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004**

Capital Projects Funds			Total
Capital Equipment	Kramer Homes Bond Construction	Total Capital Projects Funds	Nonmajor Governmental Funds
\$ 7,535	\$ 40,653	\$ 48,188	\$ 324,740
-	-	-	39,377
2,056	-	2,056	2,056
-	-	-	38,191
<u>\$ 9,591</u>	<u>\$ 40,653</u>	<u>\$ 50,244</u>	<u>\$ 404,364</u>
\$ 5,000	\$ -	\$ 5,000	\$ 101,149
2,056	-	2,056	41,433
7,056	-	7,056	142,582
2,535	40,653	43,188	261,782
<u>\$ 9,591</u>	<u>\$ 40,653</u>	<u>\$ 50,244</u>	<u>\$ 404,364</u>

City of Center Line, Michigan

	Special Revenue Funds			
	Major Streets	Local Streets	Rehabilitation	Total Special Revenue
Revenue				
State sources	\$ 331,812	\$ 132,930	\$ -	\$ 464,742
Special assessments	-	-	-	-
Interest income	153	154	1,458	1,765
Total revenue	331,965	133,084	1,458	466,507
Expenditures				
General government - Administration	33,181	13,293	-	46,474
Public works - Street maintenance	165,000	138,636	-	303,636
Capital outlay	-	-	-	-
Total expenditures	198,181	151,929	-	350,110
Excess of Revenue Over (Under) Expenditures	133,784	(18,845)	1,458	116,397
Other Financing Sources (Uses)				
Transfers in	-	82,953	-	82,953
Transfers out	(82,953)	-	-	(82,953)
Total other financing sources (uses)	(82,953)	82,953	-	-
Net Change in Fund Balances	50,831	64,108	1,458	116,397
Fund Balances - Beginning of year	(11,137)	(57,275)	170,609	102,197
Fund Balances - End of year	<u>\$ 39,694</u>	<u>\$ 6,833</u>	<u>\$ 172,067</u>	<u>\$ 218,594</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2004

Capital Projects Funds			Total
Capital Equipment	Kramer Homes Bond Construction	Total Capital Projects Funds	Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 464,742
4,517	-	4,517	4,517
285	436	721	2,486
4,802	436	5,238	471,745
-	-	-	46,474
-	-	-	303,636
17,781	16,083	33,864	33,864
17,781	16,083	33,864	383,974
(12,979)	(15,647)	(28,626)	87,771
15,000	-	15,000	97,953
-	-	-	(82,953)
15,000	-	15,000	15,000
2,021	(15,647)	(13,626)	102,771
514	56,300	56,814	159,011
<u>\$ 2,535</u>	<u>\$ 40,653</u>	<u>\$ 43,188</u>	<u>\$ 261,782</u>

City of Center Line, Michigan

Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds - Pension and Other Employee Benefit Trust Funds June 30, 2004

	Police and Fire Retirement System	Police and Fire Retiree Health Care	General Retiree Health Care	Total
Assets				
Cash	\$ 7,647	\$ -	\$ -	\$ 7,647
Investments:				
Common stocks	7,707,296	-	-	7,707,296
Corporate bonds	3,353,995	-	-	3,353,995
Mutual funds	202,796	-	-	202,796
Interlocal agreement investment pools	-	30,218	15,095	45,313
Accrued interest receivable	5,006	-	-	5,006
 Total assets	 11,276,740	 30,218	 15,095	 11,322,053
Net Assets				
Held in trust for pension benefits	11,276,740	-	-	11,276,740
Held in trust for retiree health care benefits	-	30,218	15,095	45,313
 Total net assets	 <u>\$ 11,276,740</u>	 <u>\$ 30,218</u>	 <u>\$ 15,095</u>	 <u>\$ 11,322,053</u>

City of Center Line, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds - Pension and Other Employee Benefit Trust Funds Year Ended June 30, 2004

	Police and Fire Retirement System	Police and Fire Retiree Health Care	General Retiree Health Care	Total
Additions				
Investment income:				
Interest and dividends	\$ 163,909	\$ 214	\$ 95	\$ 164,218
Net appreciation in fair value of investments	1,555,458	-	-	1,555,458
Less investment expenses	<u>(93,253)</u>	<u>-</u>	<u>-</u>	<u>(93,253)</u>
Net investment income	1,626,114	214	95	1,626,423
Contributions:				
Employer	5,516	-	15,000	20,516
Employees	<u>172,604</u>	<u>-</u>	<u>-</u>	<u>172,604</u>
Total contributions	<u>178,120</u>	<u>-</u>	<u>15,000</u>	<u>193,120</u>
Total additions	1,804,234	214	15,095	1,819,543
Deductions				
Benefit payments	736,711	-	-	736,711
Insurance	17,544	-	-	17,544
Refunds	44,471	-	-	44,471
Administrative expenses	<u>4,870</u>	<u>-</u>	<u>-</u>	<u>4,870</u>
Total deductions	<u>803,596</u>	<u>-</u>	<u>-</u>	<u>803,596</u>
Net Increase	1,000,638	214	15,095	1,015,947
Net Assets Held in Trust for Pension and Other Employee Benefits				
Beginning of year	<u>10,276,102</u>	<u>30,004</u>	<u>-</u>	<u>10,306,106</u>
End of year	<u>\$ 11,276,740</u>	<u>\$ 30,218</u>	<u>\$ 15,095</u>	<u>\$ 11,322,053</u>

August 19, 2004

Honorable Mayor and
Members of the City Council
City of Center Line
7070 Ten Mile Road
Center Line, MI 48015

Dear Mayor and Members of the City Council:

We have recently completed our audit of the financial statements of the City of Center Line for the year ended June 30, 2004. In addition to the financial report, we offer the following items for your consideration:

NEW FINANCIAL STATEMENT FORMAT (GASB 34)

As you are aware, Governmental Accounting Standards Board (GASB) Statement No. 34 was implemented for the City's 2004 fiscal year. GASB 34 has dramatically changed the look and feel of the financial statements. While the financial statements retain an element of familiarity with the continued reporting of fund based information, there are several additions and changes that provide information never before presented in the City's annual financial report. A brief summary of the changes are as follows:

- Management Discussion and Analysis (MD&A): The MD&A provides a high-level overview of the City's financial position and results of operations, with a focus on the government-wide financial statements.
- Government-Wide Financial Statements: These additional statements adjust the normal fund-based statements into a combined, full-accrual format (similar to for-profit commercial enterprises). This allows a financial statement reader to see the City from a longer term, economic perspective (i.e., are today's taxpayers paying for today's services?). These statements show capital and infrastructure assets, as well as long term debt as part of the City's overall financial picture.
- Focus on Major Funds: The fund-based financial statements now focus on the City's most significant funds (major funds). For 2004, the City's major governmental funds are the General Fund and the Construction Fund; the City's major enterprise fund is the Water and Sewer Fund.
- Budget Comparison: A financial statement reader will now be able to view not only the actual revenues and expenditures for the City's major governmental funds as compared to the current budget, but also as compared to the original budget.

INTERNAL CONTROL AND FRAUD PREVENTION

Designing and maintaining a sound system of internal controls over City assets, as well as fraud prevention and detection, are on the forefront in today's business environment. As part of our audit of the City's 2004 financial statements, we performed additional procedures as required by Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit* (SAS 99). While SAS 99 does not change the focus of the financial statement audit to a "fraud audit," the new standard incorporates a change in mindset for auditors to search for and identify significant fraud risk factors. SAS 99 requires auditors to perform specific procedures to search for significant fraud risk factors, including inquiries with key members of the administration and other employees throughout the organization; a retrospective review of accounting estimates; a detailed review of all journal entries; and other related procedures. We are pleased to report that no significant fraud risk factors or instances of fraud were identified as a result of our procedures.

As part of the City's process of continuous improvement, we noted the following item that the City may wish to consider. The City frequently utilizes electronic (or wire) transfers in lieu of writing checks to disburse funds and to transfer cash between financial institutions. Wire transfers are often used as a matter of convenience; however, under certain circumstances (e.g., federal payroll tax deposits) amounts can only be paid through wire transfer. The City has instituted policies and procedures to ensure appropriate internal control over wire transfers; however, these controls have been focused primarily on the accounting and reconciliation for wire transfers. Currently, wire transfers can be initiated by one individual (the Treasurer or Deputy Treasurer) without a secondary approval. We recommend that the City consider developing controls to ensure that there is a secondary approval by an appropriate individual prior to initiating wire transfers. These controls should incorporate security measures provided by the financial institutions that offer wire transfer services, as well as provisions for ensuring that the controls meet the cost benefit relationship of any aspect of internal control. We would be happy to assist the City in developing such controls.

OVERVIEW OF GENERAL FUND FINANCIAL CONDITION

During the year ended June 30, 2004, the City's financial condition improved as General Fund revenues exceeded expenditures by approximately \$79,000. As a result, fund balance at June 30, 2004, increased to approximately \$960,000. Of this total, \$232,000 is reserved for prepaid expenses and \$728,000 is designated for the 2004-2005 budget, capital expenditures and other purposes.

During the 2003-2004 fiscal year, the City experienced only modest growth in property tax revenue and a reduction in State revenue sharing; however, most departments were near or below budgeted expenditures. We compliment the City Council and administration for their success in planning and monitoring the budget.

The City continues to be faced with budgetary challenges. Many challenges, including further reductions in State shared revenue, are a direct result of the difficult economic period that has been experienced in the State of Michigan. Other challenges, such as limited ability to

experience growth in property tax revenue, future capital equipment and infrastructure needs, and currently unfunded post-employment benefit obligations are characteristics of the City and its physical framework. We encourage the City Council and administration to continue to closely monitor the budget to ensure that fund balance reserves are adequate. The maintenance of an adequate level of working capital is paramount to the City's ability to meet financial challenges without affecting the level of services provided to citizens or the ability to fund future obligations.

STATE REVENUE SHARING

The City has continued to feel the effects of the sluggish State economy. Reduced sales tax collections and significant budget shortfalls at the State of Michigan negatively impact the City as a result of reduced revenue sharing payments. As you are aware, revenue sharing payments are funded solely through sales tax collections. Budget cuts to the statutory portion of revenue sharing made by the State have further compounded the effect of reduced sales tax collections. State shared revenue payments, which totaled approximately 14 percent of the 2004 General Fund Budget, decreased from the payments received in 2003 by approximately 10 percent and based on the current projections provided by the State of Michigan, revenue sharing payments are expected to be reduced again in 2004-2005.

It is uncertain at this point in time whether sales tax collections will rebound in 2004-2005 or whether the State will make future accommodations to replace revenue lost as a result of budget cuts. As such, we recommend that the City continually monitor the impact of changes to projected revenue sharing payments on the General Fund budget. In addition to the periodic updates that we provide to the City, updated information can be obtained from the Department of Treasury's web site at <http://treas-secure.state.mi.us/apps/findrevshareinfo.asp> or by calling the Office of Revenue and Tax Analysis at (517) 373-2697.

CAPITAL ASSETS

As part of the implementation of GASB Statement No. 34, the City had an appraisal of its governmental capital assets performed. As you are aware, an accounting of governmental capital assets had not previously been performed resulting in the City receiving a "qualified" audit opinion as a result of this deficiency. We are pleased to report that the opinion on the City's financial statements for the 2004 fiscal year is unqualified, meaning that all information required by generally accepted accounting principles has been presented.

The results of the appraisal indicated that the City's governmental activities utilize capital assets with a gross cost of nearly \$8.3 million and a net book value (net of a depreciation allowance since acquisition) of approximately \$5.0 million. Additional information regarding the City's capital assets can be found in Note 4 to the financial statements.

Honorable Mayor and
Members of the City Council
City of Center Line

-4-

August 19, 2004

FUNDING OF POST-EMPLOYMENT BENEFIT OBLIGATIONS

The City provides post-employment benefits to retirees that are funded currently from the General Fund and the Police and Fire Retirement System. For the year ended June 30, 2004, the cost of these benefits amounted to approximately \$706,000, which represents an increase of 12 percent over the 2003 amount. The City has experienced post-employment health care cost increases of 10 to 20 percent over the past several years and this annual cost is expected to continue to grow as the average age of the City's workforce and the number of former employees eligible for post-employment benefits increases.

As you are aware, the City has established a Police and Fire Retiree Health Care Fund and a General Employees Retiree Health Care Fund, which will be used to accumulate monies to fund future post-employment benefits. This represents an important first step in beginning to set aside resources to fund these obligations and we commend the City for taking the initiative to establish these funds.

We recommend that the City also consider evaluating and funding post-employment benefit obligations on an actuarial basis, similar to pension obligations. Current accounting pronouncements do not require accounting for post-employment on an actuarial basis. The Governmental Accounting Standards Board, however, has recently issued a pronouncement (Statement No. 45) that includes provisions for measuring post-employment benefit liabilities and expenses on an actuarial basis. While this new standard will not need to be implemented by the City until 2009, actuarial funding generally provides the best mechanism for funding obligations over long time periods and multiple budget cycles and we recommend that the City consider the benefits of this funding mechanism prior to implementing GASB statement No. 45.

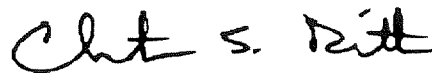
We would like to thank the City for the continued opportunity to serve as your auditors and for the assistance and cooperation extended to us throughout this audit. We would be happy to answer any questions you have regarding the annual financial report, and would be pleased to discuss the above comments and recommendations at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



David V. Grubb



Christian S. Ritter

cc: Ms. Nancy Bourgeois

City of Center Line, Michigan

Financial Report with Supplemental Information June 30, 2004

City of Center Line, Michigan

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-10
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12-13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	14
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	15
Statement of Revenue, Expenditures, and Changes in Fund Balances	16
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Proprietary Funds - Enterprise Funds:	
Statement of Net Assets	18
Statement of Revenue, Expenses, and Changes in Fund Net Assets	19
Statement of Cash Flows	20
Fiduciary Funds - Pension and Other Employee Benefit Trust Funds - Retiree Healthcare Fund:	
Statement of Net Assets	21
Statement of Changes in Net Assets	22
Notes to Financial Statements	23-43
Required Supplemental Information	
Budgetary Comparison Schedule - General Fund	44
Police and Fire Retirement System Schedules of Funding Progress and Employer Contributions	45-46

City of Center Line, Michigan

Contents (Continued)

Other Supplemental Information

Nonmajor Governmental Funds:

Combining Balance Sheet	47-48
-------------------------	-------

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	49-50
--	-------

Fiduciary Funds - Pension and Other Employee Benefit Trust Funds:

Combining Statement of Net Assets	51
-----------------------------------	----

Combining Statement of Changes in Net Assets	52
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Plante & Moran, PLLC
Suite 200
10 S. Main St.
Mount Clemens, MI 48043
Tel: 586.465.2200
Fax: 586.469.0165
plantemoran.com

Independent Auditor's Report

To the City Council
City of Center Line, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Center Line, Michigan (the "City") as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Center Line, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Center Line, Michigan as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison schedule, and retirement system schedules of funding progress and employer contributions identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A member of



A worldwide association of independent accounting firms

To the City Council
City of Center Line, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Center Line, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note I, the City implemented the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2003.

Plante & Moran, PLLC

August 19, 2004

City of Center Line, Michigan

Management's Discussion and Analysis

The City of Center Line, Michigan's (the "City") management's discussion and analysis (MD&A) is designed to provide an objective and easy-to-read analysis of the City's financial activities based on current information and facts. The MD&A is intended to serve as an introduction to the City's basic financial statements. Specifically, this information is designed to assist the reader in focusing on significant financial issues, provide an overview of the City's financial activity, identify changes in the City's financial position (its ability to address the next and subsequent years' challenges), identify significant variances from the approved budget, and identify individual fund issues.

This is the first year the City has presented its financial statements in accordance with the new reporting model required by Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34). This new reporting model significantly changes not only the presentation of financial data, but also the manner in which the information is recorded.

The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both short-term and long-term information about the City's status. The remaining statements are fund financial statements that focus on individual parts of the City's operations.

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets, the difference between the City's assets and liabilities, are one way to measure the City's financial health. Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the City are divided into three categories:

- Government activities - Most of the City's basic services are included here such as public safety, public works, recreation and library, and general administration.
- Business-type activities - The City charges fees to customers to help it cover the costs of certain services it provides. The City's water and sewer system and its solid waste system are included here.
- Component units - The City includes one other entity in its report: the Downtown Development Authority (DDA). Although legally separate, this "component unit" is important because the City is financially accountable for it.

City of Center Line, Michigan

Management's Discussion and Analysis (Continued)

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and bond covenants. The City Council establishes other funds to control and manage money for particular purposes.

The City has three kinds of funds:

- **Governmental Funds** - Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash flow in and out, and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement that explains the relationship (or differences) between them.
- **Proprietary Funds** - Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, offer short- and long-term financial information. In fact, the City's Enterprise Funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
- **Fiduciary Funds** - Fiduciary funds provide information about resources held for the benefit of parties outside the government, such as the retirement plan for the City's public safety employees in which the City acts solely as a trustee or agent. Fiduciary funds are not reflected in the government-wide financial statement because the resources of these funds are not available to support the City's own programs. The accounting used for fiduciary funds is similar to that used for proprietary funds.

Financial Highlights

The following represents that most significant financial highlights for the year ended June 30, 2004:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$100,000 from the prior year.
- Total net assets related to the City's governmental activities are \$4,920,799, with \$2,737,787 of that amount invested in capital assets.

City of Center Line, Michigan

Management's Discussion and Analysis (Continued)

- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$728,552, or 9.9 percent of total General Fund expenditures and transfers out.
- In April 2004, the City sold \$5,300,000 in General Obligation Unlimited Tax Refunding Bonds. The long-term result will be a significant savings in interest payments to the residents of the City.

Financial Analysis of the City as a Whole

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Center Line, assets of the governmental activities exceeded liabilities by \$4,920,799 at the close of the fiscal year ended June 30, 2004. The largest portion of the City's net assets (55.6 percent) reflects its investment in capital assets. The City uses capital assets to provide services to citizens; accordingly, these assets are not available for future spending.

Restricted net assets of the City's governmental activities totaled \$998,806 at June 30, 2004. These net assets have limits on their use that are externally imposed by restrictions such as enabling legislation or bond covenants. These resources can only be used for the specific purposes for which they were intended, such as expenditures for major and local streets, or debt service activities. The remaining unrestricted net assets may be used to meet the City's ongoing operations.

Since this is the first year the City has presented government-wide financial statements, comparisons to the prior year have not been presented. In future years, when prior year information is available, a comparative analysis of government-wide data will be included.

City of Center Line, Michigan

Management's Discussion and Analysis (Continued)

The following table shows, in a condensed format, the net assets of the City as of June 30, 2004:

TABLE I

	Governmental Activities	Business-type Activities	Total
Assets			
Current and other assets	\$ 3,053,990	\$ 2,669,000	\$ 5,722,990
Noncurrent assets:			
Restricted assets	-	183,971	183,971
Capital assets	<u>5,042,787</u>	<u>12,908,327</u>	<u>17,951,114</u>
Total assets	8,096,777	15,761,298	23,858,075
Liabilities			
Current liabilities	760,695	519,328	1,280,023
Long-term liabilities	<u>2,415,283</u>	<u>10,282,667</u>	<u>12,697,950</u>
Total liabilities	<u>3,175,978</u>	<u>10,801,995</u>	<u>13,977,973</u>
Net Assets			
Invested in capital assets - Net of related debt	2,737,787	2,625,660	5,363,447
Restricted	998,806	183,971	1,182,777
Unrestricted	<u>1,184,206</u>	<u>2,149,672</u>	<u>3,333,878</u>
Total net assets	<u><u>\$ 4,920,799</u></u>	<u><u>\$ 4,959,303</u></u>	<u><u>\$ 9,880,102</u></u>

As shown in Table 2 (changes in net assets), the City's total revenues were approximately \$9,690,000 for the current year, of which 50.9 percent was obtained from property taxes. Fees charged for services accounted for another 28.1 percent of the total, with the balance of the City's revenues primarily being derived from State and federal sources. The total cost of all programs and services at June 30, 2004 was \$9.96 million. City expenses cover a wide range of services. For the current fiscal year, about 47.0 percent of the City's expenses related to public safety and public works.

Net assets decreased by \$1,136,683 for the City of Center Line's governmental activities. Net assets for business-type activities increased by \$867,001 during the year. The majority of this increase is attributable to improvements to the water and sewer distribution systems.

City of Center Line, Michigan

Management's Discussion and Analysis (Continued)

The following analysis highlights the changes in net assets for the year ended June 30, 2004:

	Governmental Activities	Business-type Activities	Total
Revenue			
Program revenue:			
Charges for services	\$ 745,864	\$ 1,981,724	\$ 2,727,588
Operating grants and contributions	640,391	-	640,391
Capital grants and contributions	91,273	-	91,273
General revenues:			
Property taxes	4,934,605	-	4,934,605
State-shared revenues	1,053,733	-	1,053,733
Cable franchise fees	93,565	-	93,565
Investment earnings	64,264	24,662	88,926
Miscellaneous	40,295	-	40,295
Income from joint venture	3,400	-	3,400
Transfers	(1,695,631)	1,695,631	-
Gain (loss) on sale of assets	20,852	(4,190)	16,662
Total revenue	5,992,611	3,697,827	9,690,438
Program Expenses			
General government	1,512,749	-	1,512,749
Public safety	3,293,355	-	3,293,355
Public works	1,390,908	-	1,390,908
Recreation and culture	695,452	-	695,452
Interest on long-term debt	236,830	-	236,830
Water and sewer	-	2,554,142	2,554,142
Solid waste disposal	-	276,684	276,684
Total program expenses	7,129,294	2,830,826	9,960,120
Change in Net Assets	\$ (1,136,683)	\$ 867,001	\$ (269,682)

Financial Analysis of the City's Funds

The fund financial statements provide detailed information on the most significant governmental funds - not the City as a whole. The City of Center Line, Michigan uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements as well as to show accountability for certain activities. The City's major governmental funds for fiscal year 2003-2004 include the General Fund and the Construction Fund.

City of Center Line, Michigan

Management's Discussion and Analysis (Continued)

The General Fund is the main operating fund of the City and accounts for most of the City's governmental services, the most significant of which includes public safety. Expenditures for public safety services incurred during the year totaled \$3.1 million. The General Fund is primarily supported by property taxes (67.5 percent) and intergovernmental revenues (16.3 percent), which consist primarily of state-shared revenues. A measure of the General Fund's liquidity can be made by comparing unreserved fund balance and total fund balance to total fund expenditures. At year end, unreserved fund balance is 9.9 percent and total fund balance is 13.0 percent of total General Fund expenditures, including transfers out.

Proprietary Funds - In addition to governmental funds, the City uses proprietary funds, which provide similar types of information as that contained in the government-wide financial statements, but in more detail. The Water and Sewer Fund and Solid Waste Disposal Fund make up the City's proprietary funds. Unrestricted net assets of the proprietary funds were approximately \$2.15 million at year end. Of this amount, approximately \$1.75 million is attributable to the water supply and sewage disposal systems.

For fiscal year 2003-2004, a combined water/sewer rate increase of 18.6 percent was approved for the Water and Sewer Fund, resulting in the increase in charges for services. The rate increases were necessary to cover increased charges imposed by the Detroit water and sewerage department, increased City operating costs for water/sewer maintenance, and to offset the reduction in interest income.

The Solid Waste Disposal Fund experienced a 37.5 percent decrease in the user fee. This was directly attributed to the renegotiation of the City's waste disposal collection contract and to the South Macomb Disposal Authority's renegotiation for transfer station and disposal services.

General Fund Budgetary Highlights

The City amended its budget to account for events and changes that occurred during the course of the year. A \$198,750 increase to General Fund revenue was made as a result of changes in the accounting for state-shared revenues, an increase in the expected revenue due from the 37th District Court, a decrease in the amount spent on CDBG projects for this fiscal year, and an increase in the expected revenue from a closeout of the "Cops in Schools" grant.

Differences in expenditures between the original budget and the amended budget totaled \$103,000. The budget was amended at year end primarily for the following:

- Increase in appropriations to prevent budget overruns
- Health insurance increased costs
- Changes in salaries

City of Center Line, Michigan

Management's Discussion and Analysis (Continued)

Capital Assets

At June 30, 2004, the City had \$17,951,000 invested in a wide range of capital assets, including land, buildings, police and fire equipment, and the water and sewer utility system. As permitted by GASB No. 34, the City has elected not to report governmental infrastructure assets acquired prior to July 1, 2003.

Significant capital asset activity during the year included improvements to the water and sewer utility system totaling \$805,000. These improvements were financed through the Construction Fund and contributed to the Water and Sewer Fund upon completion.

Long-term Debt

The City's total indebtedness as of June 30, 2004 is \$13,040,000. Of this amount, \$12,145,000 are general obligation bonds, which is well below the debt limit of \$29,265,612. In addition, the City has an installment purchase contract for the 2000 fire ladder truck in the amount of \$50,000 and a Special Assessment Bond in the amount of \$680,000 for the Kramer Homes Sewer Improvement project.

The City also refinanced some of its existing debt during 2004 to take advantage of favorable interest rates. That issue is included in the amount outstanding indebtedness.

The City of Center Line, Michigan maintains an "A3" rating from Moody's Investors Services on its unlimited tax debt and a "BBB+" rating from Standard & Poors.

Economic Factors and Next Year's Budgets and Rates

The development of the 2004-2005 budget was impacted by several negative economic factors. On the revenue side, declining retail sales and a slow state economy were anticipated to result in further decreases in state-shared revenues, while investment income was expected to decline as a result of lower interest rates. On the expenditures side, costs were expected to continue to escalate for health care and pension costs.

Next year's General Fund budget is expected to use \$141,100 in fund balance in order to meet its needs. As a result, fund balance in the General Fund as of the end of the next fiscal year could drop below 10 percent of budgeted expenditures, which is the minimum established funding level goal set by the Council. The City has also attempted to control the escalation of expenses by postponing or eliminating certain nonessential capital outlay requests and by eliminating and/or delaying filling certain vacant positions.

The 2004-2005 tax rate for operating purposes remains the same as the previous year (14.663 mills). The debt millage rate has been reduced .072 mills to 4.3530, while the police and fire pension millage has been increased .7357 mills to 2.2837 due to the recent changes in benefits through the union negotiating process. Overall, next year's tax rate increased .6637 mills from 20.636 to 21.2997.

City of Center Line, Michigan

Management's Discussion and Analysis (Continued)

Request for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the treasurer/finance director at the City of Center Line, 7070 E. Ten Mile Rd., Center Line, MI 48015.

City of Center Line, Michigan

Statement of Net Assets June 30, 2004

	Primary Government			Component Unit - Downtown Development Authority
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 1,651,204	\$ 2,034,222	\$ 3,685,426	\$ 392,710
Receivables - Net:				
Taxes	74,110	-	74,110	-
Customers	-	632,572	632,572	-
Rehabilitation loans	39,377	-	39,377	-
Special assessments	696,106	-	696,106	-
Interest and other	34,002	2,206	36,208	-
State of Michigan	240,740	-	240,740	-
Investment in joint venture (Note 12)	86,900	-	86,900	-
Prepaid expenses	231,551	-	231,551	-
Restricted assets (Notes 3 and 8)	-	183,971	183,971	-
Capital assets - Net (Note 4):				
Assets not depreciated	1,445,365	-	1,445,365	-
Assets being depreciated	3,597,422	12,908,327	16,505,749	-
Total assets	8,096,777	15,761,298	23,858,075	392,710
Liabilities				
Accounts payable	508,481	340,315	848,796	-
Accrued and other liabilities	112,083	179,013	291,096	-
Property taxes collected in advance and refundable deposits	133,429	-	133,429	-
Deferred revenue (Note 6)	6,702	-	6,702	-
Noncurrent liabilities (Note 7):				
Due within one year	280,764	464,236	745,000	-
Due in more than one year	2,134,519	9,818,431	11,952,950	-
Total liabilities	3,175,978	10,801,995	13,977,973	-
Net Assets				
Invested in capital assets - Net of related debt	2,737,787	2,625,660	5,363,447	-
Restricted:				
Streets	46,527	-	46,527	-
Capital projects	258,229	-	258,229	-
Debt service	694,050	-	694,050	-
Revenue bond ordinances	-	183,971	183,971	-
Unrestricted	1,184,206	2,149,672	3,333,878	392,710
Total net assets	\$ 4,920,799	\$ 4,959,303	\$ 9,880,102	\$ 392,710

City of Center Line, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 1,512,749	\$ 590,374	\$ 63,933	\$ -
Public safety	3,293,355	88,244	94,480	-
Public works	1,390,908	4,045	464,742	91,273
Recreation and culture	695,452	63,201	17,236	-
Interest on long-term debt	236,830	-	-	-
Total governmental activities	7,129,294	745,864	640,391	91,273
Business-type activities:				
Water and sewer	2,554,142	1,698,325	-	-
Solid waste disposal	276,684	283,399	-	-
Total business-type activities	2,830,826	1,981,724	-	-
Total primary government	<u>\$ 9,960,120</u>	<u>\$ 2,727,588</u>	<u>\$ 640,391</u>	<u>\$ 91,273</u>
Component unit - Downtown Development Authority	<u>\$ 20,990</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues and transfers:				
Property taxes				
State-shared revenues				
Cable franchise fees				
Investment earnings				
Miscellaneous				
Income from joint venture				
Gain (loss) on sale of assets				
Transfers				
Total general revenues and transfers				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2004

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit -
Governmental	Business-type		Downtown
Activities	Activities	Total	Development
			Authority
\$ (858,442)	\$ -	\$ (858,442)	\$ -
(3,110,631)	-	(3,110,631)	-
(830,848)	-	(830,848)	-
(615,015)	-	(615,015)	-
(236,830)	-	(236,830)	-
(5,651,766)	-	(5,651,766)	-
-	(855,817)	(855,817)	-
-	6,715	6,715	-
-	(849,102)	(849,102)	-
(5,651,766)	(849,102)	(6,500,868)	-
-	-	-	(20,990)
4,934,605	-	4,934,605	94,787
1,053,733	-	1,053,733	-
93,565	-	93,565	-
64,264	24,662	88,926	2,733
40,295	-	40,295	-
3,400	-	3,400	-
20,852	(4,190)	16,662	-
(1,695,631)	1,695,631	-	-
4,515,083	1,716,103	6,231,186	97,520
(1,136,683)	867,001	(269,682)	76,530
6,057,482	4,092,302	10,149,784	316,180
\$ 4,920,799	\$ 4,959,303	\$ 9,880,102	\$ 392,710

City of Center Line, Michigan

Governmental Funds Balance Sheet June 30, 2004

	Major Funds		Other	Total
	General	Construction	Governmental Funds	Governmental Funds
Assets				
Cash and cash equivalents (Note 3)	\$ 1,014,440	\$ 312,024	\$ 324,740	\$ 1,651,204
Receivables - Net:				
Property taxes	96,158	-	-	96,158
Rehabilitation loans	-	-	39,377	39,377
Special assessments	694,050	-	2,056	696,106
Interest and other	34,002	-	-	34,002
State of Michigan	202,549	-	38,191	240,740
Prepaid expenses	231,551	-	-	231,551
Total assets	<u>\$ 2,272,750</u>	<u>\$ 312,024</u>	<u>\$ 404,364</u>	<u>\$ 2,989,138</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 310,349	\$ 96,983	\$ 101,149	\$ 508,481
Accrued and other liabilities	78,661	-	-	78,661
Property taxes collected in advance and refundable deposits	133,429	-	-	133,429
Deferred revenue (Note 6)	790,208	-	41,433	831,641
Total liabilities	1,312,647	96,983	142,582	1,552,212
Fund Balances				
Reserved for prepaid expenses	231,551	-	-	231,551
Unreserved:				
Designated (Note 13)	728,552	-	-	728,552
Undesignated	-	215,041	-	215,041
Unreserved, reported in:				
Special Revenue Funds	-	-	218,594	218,594
Capital Projects Funds	-	-	43,188	43,188
Total fund balances	960,103	215,041	261,782	1,436,926
Total liabilities and fund balances	<u>\$ 2,272,750</u>	<u>\$ 312,024</u>	<u>\$ 404,364</u>	<u>\$ 2,989,138</u>

City of Center Line, Michigan

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets Year Ended June 30, 2004

Total Fund Balances of Governmental Funds \$ 1,436,926

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds 5,042,787

Investment in joint venture is not included as an asset in the governmental funds 86,900

Receivables are expected to be collected over several years and are not available to pay for current year expenditures:

Property taxes	108,841
Special assessments	694,050

Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:

Notes and bonds payable	(2,305,000)
Compensated absences	(110,283)

Accrued interest payable is not included as a liability in the governmental funds (33,422)

Net Assets of Governmental Activities \$ 4,920,799

City of Center Line, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

	Major Funds		Other	Total
	General	Construction	Governmental Funds	Governmental Funds
Revenue				
Property taxes	\$ 5,033,425	\$ -	\$ -	\$ 5,033,425
Intergovernmental revenue:				
Federal sources	158,413	-	-	158,413
State sources	1,057,417	-	464,742	1,522,159
Special assessments	86,756	-	4,517	91,273
Fees and charges	553,166	-	-	553,166
Licenses and permits	132,351	-	-	132,351
Interest income	56,148	5,630	2,486	64,264
Other	376,166	-	-	376,166
Total revenue	7,453,842	5,630	471,745	7,931,217
Expenditures				
General government:				
Legislative	13,327	-	-	13,327
District Court	336,077	-	-	336,077
City assessor	67,894	-	-	67,894
City manager - Clerk	482,711	-	-	482,711
City treasurer	206,950	-	-	206,950
Other general government	435,194	-	-	435,194
Administration	-	-	46,474	46,474
Public safety:				
Public safety department	3,007,750	-	-	3,007,750
Protective inspection	127,951	-	-	127,951
Public works - DPW and street maintenance	870,395	-	303,636	1,174,031
Recreation and culture:				
Recreation	302,218	-	-	302,218
Library	298,534	-	-	298,534
Debt service	326,792	-	-	326,792
Construction and capital outlay	-	915,680	33,864	949,544
Total expenditures	6,475,793	915,680	383,974	7,775,447
Excess of Revenue Over (Under) Expenditures	978,049	(910,050)	87,771	155,770
Other Financing Sources (Uses)				
Proceeds from refunding bonds	1,490,000	-	-	1,490,000
Payment to refunding bond escrow agent	(1,483,709)	-	-	(1,483,709)
Transfers in	-	-	97,953	97,953
Transfers out	(905,201)	-	(82,953)	(988,154)
Total other financing sources (uses)	(898,910)	-	15,000	(883,910)
Net Changes in Fund Balances	79,139	(910,050)	102,771	(728,140)
Fund Balances - Beginning of year, as restated (Note 1)	880,964	1,125,091	159,011	2,165,066
Fund Balances - End of year	<u>\$ 960,103</u>	<u>\$ 215,041</u>	<u>\$ 261,782</u>	<u>\$ 1,436,926</u>

City of Center Line, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances of Governmental Funds \$ (728,140)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$ (404,228)	
Capital outlay - Assets of governmental activities	<u>4,900</u>	(399,328)

Revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end:

Property taxes	(12,064)	
Special assessment	<u>(86,756)</u>	(98,820)

Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid

(20,038)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)

205,000

Proceeds from refunding bonds and payment to refunding bond escrow agent are reported as other financing sources in the governmental funds, but not in the statement of activities:

Proceeds from refunding bonds	(1,490,000)	
Payment to refunding bond escrow agent - Net of bond costs		1,388,709

Increase in accumulated employee sick and vacation pay are recorded when earned in the statement of activities

2,534

Revenue from a joint venture reported in the statement of activities that does not provide current financial resources is not reported as revenue in the governmental funds

3,400

Change in Net Assets of Governmental Activities **\$ (1,136,683)**

City of Center Line, Michigan

Proprietary Funds Enterprise Funds Statement of Net Assets June 30, 2004

	Major Fund - Water and Sewer	Nonmajor Fund - Solid Waste Disposal	Total
Assets			
Current assets:			
Cash and investments (Note 3)	\$ 1,700,177	\$ 334,045	\$ 2,034,222
Receivables:			
Customers	529,093	103,479	632,572
Interest and other	2,206	-	2,206
Total current assets	2,231,476	437,524	2,669,000
Long-term assets:			
Restricted assets (Notes 3 and 8)	183,971	-	183,971
Capital assets - Net (Note 4)	12,908,327	-	12,908,327
Total long-term assets	13,092,298	-	13,092,298
Total assets	15,323,774	437,524	15,761,298
Liabilities			
Current liabilities:			
Accounts payable	296,991	43,324	340,315
Accrued liabilities	179,013	-	179,013
Current portion of long-term debt (Note 7)	464,236	-	464,236
Total current liabilities	940,240	43,324	983,564
Long-term debt - Net of current portion (Note 7)	9,818,431	-	9,818,431
Total liabilities	10,758,671	43,324	10,801,995
Net Assets			
Invested in capital assets - Net of related debt	2,625,660	-	2,625,660
Restricted - Revenue bond ordinances	183,971	-	183,971
Unrestricted	1,755,472	394,200	2,149,672
Total net assets	\$ 4,565,103	\$ 394,200	\$ 4,959,303

City of Center Line, Michigan

Proprietary Funds Enterprise Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2004

	Major Fund - Water and Sewer	Nonmajor Fund - Solid Waste Disposal	Total
Operating Revenue			
Water sales and sewage disposal revenue	\$ 1,698,325	\$ -	\$ 1,698,325
Solid waste disposal revenue	<u>-</u>	<u>283,399</u>	<u>283,399</u>
Total operating revenue	1,698,325	283,399	1,981,724
Operating Expenses			
Cost of water and sewage disposal	1,063,293	-	1,063,293
Cost of solid waste disposal	-	268,113	268,113
Salaries and fringe benefits	234,391	-	234,391
Utilities	18,782	-	18,782
Depreciation	265,782	-	265,782
Repairs and maintenance	295,179	-	295,179
Insurance	4,520	-	4,520
Office supplies	2,796	2,072	4,868
Professional services	5,038	2,500	7,538
Operating supplies	49,198	-	49,198
Rent	35,500	4,000	39,500
Vehicle expenses	1,990	-	1,990
Other	<u>8,687</u>	<u>-</u>	<u>8,687</u>
Total operating expenses	<u>1,985,156</u>	<u>276,685</u>	<u>2,261,841</u>
Operating Income (Loss)	(286,831)	6,714	(280,117)
Nonoperating Revenue (Expenses)			
Loss on sale of equipment	(2,240)	(1,950)	(4,190)
Interest income	20,417	4,245	24,662
Interest expense	<u>(568,985)</u>	<u>-</u>	<u>(568,985)</u>
Total nonoperating revenue (expenses)	<u>(550,808)</u>	<u>2,295</u>	<u>(548,513)</u>
Income (Loss) - Before transfers and capital contributions	(837,639)	9,009	(828,630)
Transfer In	890,201	-	890,201
Capital Contributions - From other funds	<u>805,430</u>	<u>-</u>	<u>805,430</u>
Increase in Net Assets	857,992	9,009	867,001
Net Assets - Beginning of year, as restated (Note 1)	<u>3,707,111</u>	<u>385,191</u>	<u>4,092,302</u>
Net Assets - End of year	<u><u>\$ 4,565,103</u></u>	<u><u>\$ 394,200</u></u>	<u><u>\$ 4,959,303</u></u>

City of Center Line, Michigan

Proprietary Funds Enterprise Funds Statement of Cash Flows Year Ended June 30, 2004

	Major Fund - Water and Sewer	Nonmajor Fund - Solid Waste Disposal	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 1,724,608	\$ 333,814	\$ 2,058,422
Payments to suppliers for water supply, sewage disposal, and solid waste disposal	(1,015,716)	(291,798)	(1,307,514)
Payments to other suppliers and employees	(656,081)	(8,573)	(664,654)
Net cash provided by operating activities	52,811	33,443	86,254
Cash Flows from Capital and Related Financing Activities			
Transfers from other funds	890,201	-	890,201
Proceeds from long-term debt	3,810,000	-	3,810,000
Principal and interest paid on long-term debt	(4,728,009)	-	(4,728,009)
Net cash used in capital and related financing activities	(27,808)	-	(27,808)
Cash Flows from Investing Activities - Interest received on investments	18,837	4,245	23,082
Net Increase in Cash and Cash Equivalents	43,840	37,688	81,528
Cash and Cash Equivalents - Beginning of year	1,840,308	296,357	2,136,665
Cash and Cash Equivalents - End of year	<u>\$ 1,884,148</u>	<u>\$ 334,045</u>	<u>\$ 2,218,193</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ 1,700,177	\$ 334,045	\$ 2,034,222
Restricted assets	183,971	-	183,971
Total	<u>\$ 1,884,148</u>	<u>\$ 334,045</u>	<u>\$ 2,218,193</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities			
Operating income (loss)	\$ (286,831)	\$ 6,714	\$ (280,117)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation and amortization	265,782	-	265,782
Changes in assets and liabilities:			
Receivables	26,284	50,416	76,700
Accounts payable and accrued liabilities	47,576	(23,687)	23,889
Net cash provided by operating activities	<u>\$ 52,811</u>	<u>\$ 33,443</u>	<u>\$ 86,254</u>

City of Center Line, Michigan

Fiduciary Funds Statement of Net Assets Pension and Other Employee Benefit Trust Funds Retiree Healthcare Fund June 30, 2004

Assets

Cash (Note 3)	\$ 7,647
Investments (Note 3):	
Common stocks	7,707,296
Corporate bonds	3,353,995
Mutual funds	202,796
Interlocal agreement investment pools	45,313
Accrued interest receivable	<u>5,006</u>
Total assets	<u>11,322,053</u>

Net Assets

Held in trust for pension benefits	11,276,740
Held in trust for retiree health care benefits	<u>45,313</u>
Total net assets	<u><u>\$ 11,322,053</u></u>

City of Center Line, Michigan

Fiduciary Funds Statement of Changes in Net Assets Pension and Other Employee Benefit Trust Funds Retiree Healthcare Fund Year Ended June 30, 2004

Additions

Investment income:	
Interest and dividends	\$ 164,218
Net appreciation in fair value of investments	1,555,458
Less investment expenses	<u>(93,253)</u>
Net investment income	1,626,423
Contributions:	
Employer	20,516
Employees	<u>172,604</u>
Total contributions	<u>193,120</u>
Total additions	1,819,543

Deductions

Benefit payments	736,711
Insurance	17,544
Contribution refunds	44,471
Administrative expenses	<u>4,870</u>
Total deductions	<u>803,596</u>

Net Increase 1,015,947

Net Assets Held in Trust for Pension and Other Employee Benefits

Beginning of year	<u>10,306,106</u>
End of year	<u><u>\$ 11,322,053</u></u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Center Line (the “City”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected five-member council. The accompanying financial statements present the City and its discretely presented component unit, an entity for which the City is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City, although the City has the ability to impose its will over the entities.

Discretely Presented Component Unit - The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Downtown Development Authority’s governing body, consisting of 11 individuals, is selected by the City Council. In addition, the Downtown Development Authority’s budget is subject to approval by the City Council.

The City has an Economic Development Corporation and a Building Authority; however, there was no financial activity during the year.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The major governmental funds and major Enterprise Fund are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Construction Fund - The Construction Fund accounts for the development of capital facilities that are financed with General Obligation Water and Sewer Bonds. The assets constructed are contributed to the Water and Sewer Enterprise Fund.

The City reports the following major Enterprise Fund:

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fund type:

Pension and Other Employee Benefit Trust Funds - The Pension and Other Employee Benefit Trust Funds account for the accumulation of resources for the payment of pension and retiree healthcare benefits to employees of the City.

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures relating to compensated absences are recorded only when payment is due.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its Enterprise Fund.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Property Tax Revenue - Properties are assessed as of December 31 and the related taxes become a lien at that time. These taxes are billed on July 1 of the following year and are due on August 31 with the final collection date of February 28 before they are added to the county tax rolls.

The 2003 taxable valuation (real and personal property) of the City totaled \$237,953,000, on which ad valorem taxes levied consisted of 14.663 mills for the City's operating purposes, 4.425 mills for debt service purposes, and 1.548 mills for the public safety pension. The ad valorem taxes generated \$3,489,000 for general operations, \$1,053,000 for debt retirement, and \$368,000 for public safety pension benefits. These amounts are recorded in the General Fund as tax revenue.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, utility systems, etc.) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

As permitted by GASB Statement No. 34, the City has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to July 1, 2003.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Utility system	70 years
Land improvements	20 years
Buildings and improvements	50 years
Machinery and equipment	5 to 20 years

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only when due for payment (generally for employee terminations as of year end).

Long-term Obligations - In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Accounting Changes

GASB No. 34 - Effective July 1, 2003, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34), and related statements. Changes to the City's financial statements as a result of GASB No. 34 are as follows:

- A management's discussion and analysis (MD&A) section providing analysis of the City's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the City's activities have been provided.
- The fund financial statements focus on major funds rather than fund types.
- The governmental activities column includes bonds and other long-term obligations totaling \$2,528,000 previously reported in the General Long-term Debt Account Group.

Note 1 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition - Concurrent with the adoption of GASB No. 34, the City changed the availability period for recognizing revenue in governmental funds from 30 days to 60 days. The change permits the City to more accurately report those revenues in governmental funds that are used to pay liabilities recognized as of year end. Fund balance in the General Fund has been increased by \$208,068 at July 1, 2003 as a result of this change. The effect of this change on the excess of revenue over expenditures in the General Fund for 2004 and 2003 was not significant.

Enterprise Fund Long-term Debt - Prior to July 1, 2003, the City reported \$10,500,000 of General Obligation Water and Sewer Improvement Bonds in the General Long-term Debt Account Group. The proceeds from the bonds were used for water and sewer utility system repairs and improvements; assets constructed were contributed to the Water and Sewer Enterprise Fund. In order to more accurately report the bond obligations and the related assets, the City has transferred the bond obligations to the Water and Sewer Enterprise Fund as of July 1, 2003 resulting in a reduction to net assets as of that date totaling \$10,500,000.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - The annual budget is prepared by the City administration and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end, and encumbrances are not included as expenditures. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered spent when goods are received or services are rendered. During the year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds - Transfers out from the General Fund exceeded appropriations by approximately \$875,000 during the year. This excess was offset by a positive variance in debt service expenditures totaling approximately \$887,000 and was the result of a difference in how debt service expenditures related to the General Obligation Water and Sewer Bonds were accounted for. The bond payments are funded through a property tax levy accounted for in the General Fund. The budget as adopted anticipated that the debt service expenditures would be reported in the General Fund; however, the tax monies were instead transferred to the Water and Sewer Fund where the debt service payments were accounted for.

In addition, the City did not budget the payment to the refunded bond escrow agent totaling approximately \$1,484,000; this unfavorable variance was offset by a favorable variance in the proceeds from refunding bonds totaling \$1,490,000.

State Construction Code Fees - The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity for the year ended June 30, 2004 is as follows:

Cumulative shortfall - July 1, 2003		\$ (263,039)
Building permit revenue		39,117
Related expenditures:		
Direct costs	\$ 127,951	
Estimated indirect costs	<u>12,795</u>	
Total construction code expenditures		<u>140,746</u>
Excess of expenditures over revenue		<u>(101,629)</u>
Cumulative shortfall - June 30, 2004		<u><u>\$ (364,668)</u></u>

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is also allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The City has adopted an investment policy in accordance with state law and management believes that the City's deposits and investment are in accordance with statutory authority.

The Police and Fire Retirement System Fund, Police and Fire Retiree Health Care Fund, and General Retiree Health Care Fund are also authorized to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, certain real estate investments, and other specified investment vehicles.

At June 30, 2004, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Total Primary Government	Fiduciary Funds	Component Units
Cash and investments	\$ 1,651,204	\$ 2,034,222	\$ 3,685,426	\$ 11,317,047	\$ 392,710
Restricted assets	-	183,971	183,971	-	-
Total	<u>\$ 1,651,204</u>	<u>\$ 2,218,193</u>	<u>\$ 3,869,397</u>	<u>\$ 11,317,047</u>	<u>\$ 392,710</u>

City of Center Line, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Deposits and Investments (Continued)

Deposits and investments are categorized as follows in accordance with GASB Statement No. 3:

	Primary Government	Fiduciary Funds	Component Units
Bank deposits (checking accounts)	\$ 868,723	\$ 7,647	\$ -
Investments in securities, mutual funds, and similar vehicles	2,999,504	11,309,400	392,710
Petty cash or cash on hand	<u>1,170</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 3,869,397</u>	<u>\$ 11,317,047</u>	<u>\$ 392,710</u>

Deposits - The bank balance of the City's deposits totaled \$954,000, of which approximately \$208,000 is covered by federal depository insurance and the remainder was uninsured and uncollateralized.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which funds are deposited and assesses the level of risk of each institution; only these institutions with an acceptable level of risk are used as depositories.

Investments - Investments are categorized into these three categories of credit risk, as follows:

Category 1 - Insured or registered, with securities held by the City or its agent in the City's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

City of Center Line, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Deposits and Investments (Continued)

At June 30, 2004, the City's investments were categorized as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary government - Investments not subject to categorization:				
Bank investment pools	\$ -	\$ -	\$ -	\$ 962,067
Interlocal agreement investment pools	-	-	-	309,569
Mutual funds	-	-	-	1,727,868
Total primary government	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,999,504</u>
Fiduciary funds:				
Corporate bonds and securities	\$ -	\$ -	\$ 3,353,995	\$ 3,353,995
Common and preferred stock	-	-	7,707,296	7,707,296
Investments not subject to categorization:				
Interlocal agreement investment pools	-	-	-	45,313
Mutual funds	-	-	-	202,796
Total fiduciary funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,061,291</u>	<u>\$ 11,309,400</u>
Component units - Investments not subject to categorization - Interlocal agreement investment pools	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 392,710</u>	<u>\$ 392,710</u>

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The mutual funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act. Investments under the interlocal agreement are regulated by the Urban Cooperation Act. The fair value of the position in the bank investment pools and interlocal agreement investment pools is the same as the value of the pool shares.

City of Center Line, Michigan

Notes to Financial Statements June 30, 2004

Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 1,445,365	\$ -	\$ -	\$ 1,445,365
Capital assets being depreciated				
Land improvements	654,546	-	-	654,546
Buildings and improvements	2,295,126	-	-	2,295,126
Machinery and equipment	3,890,644	4,900	-	3,895,544
Subtotal	6,840,316	4,900	-	6,845,216
Accumulated depreciation:				
Land improvements	291,310	32,728	-	324,038
Buildings and improvements	716,340	45,883	-	762,223
Machinery and equipment	1,835,916	325,617	-	2,161,533
Subtotal	2,843,566	404,228	-	3,247,794
Net capital assets being depreciated	3,996,750	(399,328)	-	3,597,422
Net capital assets	<u>\$ 5,442,115</u>	<u>\$ (399,328)</u>	<u>\$ -</u>	<u>\$ 5,042,787</u>
Business-type Activities				
Capital assets being depreciated:				
Utility system	\$ 13,511,952	\$ 805,430	\$ (8,254)	\$ 14,309,128
Buildings and improvements	1,463,430	-	-	1,463,430
Machinery and equipment	459,893	-	-	459,893
Subtotal	15,435,275	805,430	(8,254)	16,232,451
Accumulated depreciation:				
Utility system	2,124,820	212,571	(6,014)	2,331,377
Buildings and improvements	551,603	35,637	-	587,240
Machinery and equipment	387,933	17,574	-	405,507
Subtotal	3,064,356	265,782	(6,014)	3,324,124
Net capital assets	<u>\$ 12,370,919</u>	<u>\$ 539,648</u>	<u>\$ (2,240)</u>	<u>\$ 12,908,327</u>

City of Center Line, Michigan

Notes to Financial Statements June 30, 2004

Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the governmental activities as follows:

General government	\$ 68,118
Public safety	157,324
Public works	84,834
Recreation and culture	<u>93,952</u>
Total governmental activities	<u>\$ 404,228</u>

Note 5 - Interfund Transfers

Interfund transfers reported in the fund financial statements are comprised of the following:

	Transfers Out		
	Other Governmental		
	General Fund	Funds	Total
Transfers in:			
Water and Sewer Fund	\$ 890,201 (1)	\$ -	\$ 890,201
Other governmental funds	<u>15,000 (2)</u>	<u>82,953 (3)</u>	<u>97,953</u>
Total	<u>\$ 905,201</u>	<u>\$ 82,953</u>	<u>\$ 988,154</u>

(1) Transfer of debt service tax revenues collected in the General Fund for retirement of Unlimited Tax General Obligation Water and Sewer Improvement Bonds reported in the Water and Sewer Enterprise Fund.

(2) Transfer of Act 51 revenue-sharing payments from the Major Streets Fund to the Local Streets Fund as permitted by State law.

(3) Transfer of discretionary funds to be used for the benefit of the City.

City of Center Line, Michigan

Notes to Financial Statements June 30, 2004

Note 6 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. As of June 30, 2004, the components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessment receivables	\$ 694,050	\$ -
Delinquent personal property tax receivables	91,512	-
Rehabilitation loan receivables	39,377	-
Other	-	6,702
Total	<u>\$ 824,939</u>	<u>\$ 6,702</u>

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties and will be repaid from amounts levied against those properties benefited from the construction. At June 30, 2004, there is \$694,050 of special assessments receivable in the future. In the event that a deficiency exists because unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Delinquent special assessments receivable at June 30, 2004 are not material. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

City of Center Line, Michigan

Notes to Financial Statements June 30, 2004

Note 7 - Long-term Debt

Long-term debt activity for governmental activities is summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
Unlimited Tax General Obligation Bonds:							
1996 Municipal Building Bonds:							
Amount of issue - \$2,000,000	4.4%-	\$80,000-					
Maturing through 2016	6.30%	\$170,000	\$ 1,560,000	\$ -	\$ 1,475,000 *	\$ 85,000	\$ 85,000
2004 Refunding Bonds:							
Amount of issue - \$1,490,000	2.00%-	\$40,764-					
Maturing through 2020	3.80%	\$127,915	-	1,490,000	-	1,490,000	40,764
Special Assessment Bonds:							
2002 Kramer Homes Bonds:							
Amount of issue - \$800,000	3.25%-	\$80,000-					
Maturing through 2012	4.35%	\$85,000	760,000	-	80,000	680,000	85,000
Installment purchase agreements -							
2000 Fire Truck:							
Amount of issue - \$205,000	4.95%-	\$30,000-					
Maturing through 2005	5.40%	\$50,000	95,000	-	45,000	50,000	50,000
Accumulated compensated absences			112,816	-	2,533	110,283	20,000
Total governmental activities			\$ 2,527,816	\$ 1,490,000	\$ 1,602,533	\$ 2,415,283	\$ 280,764

* Portion of bonds outstanding was advance refunded during 2004.

Long-term debt activity for business-type activities is summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities							
Revenue Bonds:							
1991 Water and Sewer Bonds:							
Amount of issue - \$285,000	7.05%-	\$15,000-					
Maturing through 2011	7.25%	\$25,000	\$ 180,000	\$ -	\$ 15,000	\$ 165,000	\$ 15,000
Unlimited Tax General Obligation Bonds:							
1986 Water and Sewer Bonds:							
Amount of issue - \$800,000		\$75,000-					
Maturing through 2006	7.50%	\$100,000	250,000	-	250,000 *	-	-
1998 Water and Sewer Bonds:							
Amount of issue - \$995,000	4.50%-	\$50,000-					
Maturing through 2018	5.00%	\$75,000	825,000	-	775,000 *	50,000	50,000
1998B Water and Sewer Bonds:							
Amount of issue - \$3,600,000	3.95%-	\$75,000-					
Maturing through 2019	6.00%	\$375,000	3,425,000	-	75,000	3,350,000	100,000
2000 Water and Sewer Bonds:							
Amount of issue - \$3,000,000	5.20%-	\$75,000-					
Maturing through 2020	6.00%	\$325,000	2,850,000	-	2,525,000 *	325,000	75,000
2002 Water and Sewer Fund Bonds:							
Amount of issue - \$2,405,000	4.50%-	\$50,000-					
Maturing through 2020	6.50%	\$275,000	2,405,000	-	50,000	2,355,000	50,000
2002 Kramer Homes Water and Sewer Bonds:							
Amount of issue - \$800,000	3.25%-	\$65,000-					
Maturing through 2012	4.35%	\$100,000	745,000	-	65,000	680,000	70,000
2004 Refunding Bonds:							
Amount of issue - \$3,810,000	2.00%-	\$104,236-					
Maturing through 2020	3.80%	\$327,085	-	3,810,000	-	3,810,000	104,236
Less - Unamortized deferred charges			-	(460,000)	(7,667)	(452,333)	-
Total business-type activities			\$ 10,680,000	\$ 3,350,000	\$ 3,747,333	\$ 10,282,667	\$ 464,236

* Portion of bonds outstanding was advance refunded during 2004.

City of Center Line, Michigan

Notes to Financial Statements June 30, 2004

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 260,764	\$ 80,451	\$ 341,215	\$ 464,236	\$ 426,812	\$ 891,048
2006	170,745	69,465	240,210	539,255	422,963	962,218
2007	142,632	63,706	206,338	497,368	381,888	879,256
2008	144,038	58,011	202,049	580,962	380,488	961,450
2009	172,151	51,565	223,716	552,849	357,076	909,925
2010-2014	765,254	168,329	933,583	3,289,746	1,310,696	4,600,442
2015-2019	558,045	63,373	621,418	4,301,955	580,146	4,882,101
2020	91,371	1,730	93,101	508,629	10,634	519,263
Total	<u>\$ 2,305,000</u>	<u>\$ 556,630</u>	<u>\$ 2,861,630</u>	<u>\$ 10,735,000</u>	<u>\$ 3,870,703</u>	<u>\$ 14,605,703</u>

Advance Refundings - During the year, the City issued \$5,300,000 in Unlimited Tax General Obligation Bonds with an average interest rate of 3.22 percent. The proceeds from the refunding bonds were used to advance refund outstanding Unlimited Tax General Obligation Bonds reported in the governmental and business-type activities totaling \$1,395,000 and \$3,350,000, respectively, with an average interest rate of 5.34 percent. The net proceeds of approximately \$5,125,000 (after payment of \$175,000 in underwriting fees, insurance, and other issuance costs) plus an additional \$43,000 of General Fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the governmental activities and business-type activities. The advance refunding reduced total debt service payments over the next 17 years by approximately \$342,000, which represents an economic gain of approximately \$243,000.

Note 8 - Restricted Assets

In accordance with revenue bond provisions, assets of the Water and Sewer Fund have been restricted for the funding of required reserves. The following is a summary of restricted assets at June 30, 2004:

Revenue bond requirements:	
Operation and maintenance	\$ 143,281
Bond reserve	29,500
Debt service:	
Principal	4,940
Interest	<u>6,250</u>
Total requirements - June 30, 2004	<u>\$ 183,971</u>

Net assets at June 30, 2004 have been restricted for the amount of the required reserves.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims, and participates in the Michigan Municipal League Risk Pool for claims relating to property loss, torts, errors and omissions, and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 10 - Defined Benefit Pension Plans

City of Center Line Police and Fire Retirement System

Plan Description

The City of Center Line Police and Fire Retirement System (the "System") is the administrator of a single-employer defined benefit pension plan that covers public safety employees of the City. The System provides retirement, death, disability, and health benefits to plan members and their beneficiaries. At June 30, 2003, the date of the most recent actuarial valuation, membership consisted of 36 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 28 current active employees. The plan does not issue a separate financial report.

Contributions

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due, and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the System was established by City ordinances and State statute (P.A. 345) and requires a contribution of 9.25 percent of compensation from employees. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Annual Pension Cost

For the year ended June 30, 2004, the City's annual pension cost was \$5,516, which was equal to the actual and required contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2002 using the entry age actuarial funding method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return, (b) projected salary increases of 5 percent to 8 percent per year, and (c) no cost-of-living adjustments. Both (a) and (b) include an inflation component of 5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period is 18 years.

Note 10 - Defined Benefit Pension Plans (Continued)

Reserves

At June 30, 2004, the plan's legally required reserves have been fully funded, as follows:

Reserve for employees' contributions	\$ 1,446,303
Reserve for retiree benefit payments	61,879

Three-year Trend Information

	Fiscal Year Ended June 30		
	2002	2003	2004
Annual pension cost (APC)	\$ -	\$ -	\$ 5,516
Percentage of APC contributed	-	-	100%
Net pension obligation	\$ -	\$ -	\$ -

Michigan Municipal Employees' Retirement System

Plan Description

The City participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for municipalities throughout the State of Michigan. The system covers substantially all City employees except for those in the public safety department. The MMERS provides retirement, disability, and death benefits to plan members and their beneficiaries.

The MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MMERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy

The obligation to contribute to and maintain the MMERS for these employees was established by negotiation with the City's contractual bargaining units and requires a contribution from covered employees ranging from 3 percent to 5 percent of gross wages.

Note 10 - Defined Benefit Pension Plans (Continued)

Annual Pension Cost

For the year ended June 30, 2004, the City's annual pension cost of \$68,928 was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2001, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 8.7 percent per year, and (c) no cost-of-living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 25 years.

Three-year Trend Information

	Fiscal Year Ended June 30		
	2004	2003	2002
Annual pension cost (APC)	\$ 68,928	\$ 39,872	\$ -
Percentage of APC contributed	100	100	-
Net pension obligation	-	-	-

Schedule of Funding Progress

	Actuarial Valuation as of December 31		
	2003	2002	2001
Actuarial value of assets	\$ 6,223,556	\$ 6,096,223	\$ 6,231,687
Actuarial accrued liability (AAL)			
(entry age)	\$ 7,564,089	\$ 7,028,102	\$ 6,444,196
Unfunded AAL (UAAL)	\$ 1,340,533	\$ 931,879	\$ 212,509
Funded ratio	82.3%	86.7%	96.7%
Covered payroll	\$ 1,249,000	\$ 1,371,000	\$ 1,287,000
UAAL as a percentage of covered payroll	107.3%	68.0%	16.5%

Note 11 - Postemployment Benefits

The City provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 69 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for post-employment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$706,000.

Note 12 - Joint Ventures

The City is a member of the South Macomb Disposal Authority, which provides refuse disposal services to participating municipalities in Macomb County, Michigan. Other members include the cities of Eastpointe, Roseville, St. Clair Shores, and Warren, Michigan. The City appoints one member to the joint venture's governing board, which then approves the annual budget. The City's equity interest in the Authority's operating reserve totaling \$86,900 is recorded within the governmental activities column of the statement of net assets. As of the date of this report, the Authority has reserves totaling approximately \$7,500,000 that have been designated for self-insurance activities; the participating communities' equity interest in the insurance reserve is not determinable. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Complete financial statements for the South Macomb Disposal Authority can be obtained from the administrative offices at 20001 Pleasant Avenue, St. Clair Shores, Michigan.

The City is also a member of the 37th District Court, State of Michigan, which provides services to the residents of the cities of Center Line and Warren. As of the most recent financial statements available, the District Court has no equity. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Complete financial statements for the 37th District Court, State of Michigan can be obtained from the administrative offices at 8300 Common Road, Warren, Michigan.

Note 13 - Designated Fund Balance

Fund balance in the General Fund has been designated for the following purposes:

Subsequent year's budget	\$ 141,000
Installment purchase agreements	70,000
Accumulated compensated absences	110,283
Capital expenditures	<u>407,269</u>
Total	<u>\$ 728,552</u>

Note 14 - Contingency

The City has entered into an administrative consent order with the Michigan Department of Environmental Quality regarding sanitary sewer overflows that have occurred within the City. According to the provisions of the order, the City is required to continue a corrective action plan, including the evaluation of its storm and sanitary sewer systems, to eliminate future overflows.

The City has complied with all requirements to date of the administrative consent order, which included completing a plan for footing drain disconnection and sump pump installation in affected areas. The final nature of these and other improvements, including the estimated cost and sources of funding, is not known at this time.

Required Supplemental Information

City of Center Line, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 5,006,120	\$ 5,023,120	\$ 5,033,425	\$ 10,305
Intergovernmental revenue:				
Federal sources	155,000	162,500	158,413	(4,087)
State sources	1,147,000	1,269,000	1,057,417	(211,583)
Special assessments	86,760	86,760	86,756	(4)
Fees and charges	439,500	522,500	553,166	30,666
Licenses and permits	137,100	137,100	132,351	(4,749)
Interest income	60,000	52,000	56,148	4,148
Other	382,150	359,400	376,166	16,766
Total revenue	7,413,630	7,612,380	7,453,842	(158,538)
Expenditures				
General government:				
Legislative	12,680	12,680	13,327	(647)
District Court	339,010	339,010	336,077	2,933
City assessor	77,640	77,640	67,894	9,746
City manager - Clerk	535,070	535,070	482,711	52,359
City treasurer	202,840	206,590	206,950	(360)
Other general government	514,190	459,190	435,194	23,996
Public safety:				
Public safety department	2,902,220	2,986,170	3,007,750	(21,580)
Protective inspection	119,490	126,230	127,951	(1,721)
Public works - DPW and street maintenance	851,820	877,030	870,395	6,635
Recreation and culture:				
Recreation	348,250	348,250	302,218	46,032
Library	297,100	305,400	298,534	6,866
Debt service	1,213,320	1,213,320	326,792	886,528
Total expenditures	7,413,630	7,486,580	6,475,793	1,010,787
Excess of Revenue Over (Under) Expenditures	-	125,800	978,049	852,249
Other Financing Sources (Uses)				
Proceeds from refunding bonds	-	-	1,490,000	1,490,000
Payment to refunding bond escrow agent	-	-	(1,483,709)	(1,483,709)
Transfers out	-	(30,000)	(905,201)	(875,201)
Total other financing sources (uses)	-	(30,000)	(898,910)	(868,910)
Net Change in Fund Balances	-	95,800	79,139	(16,661)
Fund Balances - Beginning of year, as restated	672,896	880,964	880,964	-
Fund Balances - End of year	<u>\$ 672,896</u>	<u>\$ 976,764</u>	<u>\$ 960,103</u>	<u>\$ (16,661)</u>

City of Center Line, Michigan

Retirement System Required Supplemental Information Police and Fire Retirement System Schedule of Funding Progress June 30, 2004

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) AAL	Funded Ratio (Percent)	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
6/30/98	\$ 11,480,955	\$ 9,895,373	\$ (1,585,582)	116.0	\$ 1,161,488	-
6/30/99	12,414,437	9,940,916	(2,473,521)	124.9	1,339,886	-
6/30/00	13,303,718	10,129,813	(3,173,905)	131.3	1,406,451	-
6/30/01	13,953,545	10,461,274	(3,492,271)	133.4	1,503,401	-
6/30/02	13,374,923	10,602,669	(2,772,254)	126.1	1,501,053	-
6/30/03	12,579,542	11,465,738	(1,113,804)	109.7	1,543,963	-

City of Center Line, Michigan

Retirement System Required Supplemental Information Police and Fire Retirement System Schedule of Employer Contributions June 30, 2004

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1999	\$ 95,694	100.0
2000	65,750	100.0
2001	26,168	100.0
2002	-	-
2003	-	-
2004	5,516	100.0

The information presented above was determined as part of the actuarial valuation at the dates indicated. Additional information as of June 30, 2003, the date of the latest actuarial valuation, follows:

Actuarial cost method	Entry age
Amortization method	Level percent, closed
Remaining amortization period	18 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.50%
Projected salary increases*	5.00%-8.00%
Cost of living adjustments	None
*Includes inflation at	5.00%

City of Center Line, Michigan

	Special Revenue Funds			
	Major Streets	Local Streets	Rehabilitation	Total Special Revenue Funds
Assets				
Cash and investments	\$ 92,166	\$ 12,319	\$ 172,067	\$ 276,552
Receivables - Net:				
Rehabilitation loans	-	-	39,377	39,377
Special assessments	-	-	-	-
State of Michigan	27,258	10,933	-	38,191
Total assets	<u>\$ 119,424</u>	<u>\$ 23,252</u>	<u>\$ 211,444</u>	<u>\$ 354,120</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 79,730	\$ 16,419	\$ -	\$ 96,149
Deferred revenue	-	-	39,377	39,377
Total liabilities	79,730	16,419	39,377	135,526
Fund Balances - Unreserved and undesignated	<u>39,694</u>	<u>6,833</u>	<u>172,067</u>	<u>218,594</u>
Total liabilities and fund balances	<u>\$ 119,424</u>	<u>\$ 23,252</u>	<u>\$ 211,444</u>	<u>\$ 354,120</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004**

Capital Projects Funds			Total
Capital Equipment	Kramer Homes Bond Construction	Total Capital Projects Funds	Nonmajor Governmental Funds
\$ 7,535	\$ 40,653	\$ 48,188	\$ 324,740
-	-	-	39,377
2,056	-	2,056	2,056
-	-	-	38,191
<u>\$ 9,591</u>	<u>\$ 40,653</u>	<u>\$ 50,244</u>	<u>\$ 404,364</u>
\$ 5,000	\$ -	\$ 5,000	\$ 101,149
2,056	-	2,056	41,433
7,056	-	7,056	142,582
2,535	40,653	43,188	261,782
<u>\$ 9,591</u>	<u>\$ 40,653</u>	<u>\$ 50,244</u>	<u>\$ 404,364</u>

City of Center Line, Michigan

	Special Revenue Funds			
	Major Streets	Local Streets	Rehabilitation	Total Special Revenue
Revenue				
State sources	\$ 331,812	\$ 132,930	\$ -	\$ 464,742
Special assessments	-	-	-	-
Interest income	<u>153</u>	<u>154</u>	<u>1,458</u>	<u>1,765</u>
Total revenue	331,965	133,084	1,458	466,507
Expenditures				
General government - Administration	33,181	13,293	-	46,474
Public works - Street maintenance	165,000	138,636	-	303,636
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>198,181</u>	<u>151,929</u>	<u>-</u>	<u>350,110</u>
Excess of Revenue Over (Under) Expenditures	133,784	(18,845)	1,458	116,397
Other Financing Sources (Uses)				
Transfers in	-	82,953	-	82,953
Transfers out	<u>(82,953)</u>	<u>-</u>	<u>-</u>	<u>(82,953)</u>
Total other financing sources (uses)	<u>(82,953)</u>	<u>82,953</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	50,831	64,108	1,458	116,397
Fund Balances - Beginning of year	<u>(11,137)</u>	<u>(57,275)</u>	<u>170,609</u>	<u>102,197</u>
Fund Balances - End of year	<u><u>\$ 39,694</u></u>	<u><u>\$ 6,833</u></u>	<u><u>\$ 172,067</u></u>	<u><u>\$ 218,594</u></u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2004

Capital Projects Funds			Total
Capital Equipment	Kramer Homes Bond Construction	Total Capital Projects Funds	Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 464,742
4,517	-	4,517	4,517
285	436	721	2,486
4,802	436	5,238	471,745
-	-	-	46,474
-	-	-	303,636
17,781	16,083	33,864	33,864
17,781	16,083	33,864	383,974
(12,979)	(15,647)	(28,626)	87,771
15,000	-	15,000	97,953
-	-	-	(82,953)
15,000	-	15,000	15,000
2,021	(15,647)	(13,626)	102,771
514	56,300	56,814	159,011
<u>\$ 2,535</u>	<u>\$ 40,653</u>	<u>\$ 43,188</u>	<u>\$ 261,782</u>

City of Center Line, Michigan

Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds - Pension and Other Employee Benefit Trust Funds June 30, 2004

	Police and Fire Retirement System	Police and Fire Retiree Health Care	General Retiree Health Care	Total
Assets				
Cash	\$ 7,647	\$ -	\$ -	\$ 7,647
Investments:				
Common stocks	7,707,296	-	-	7,707,296
Corporate bonds	3,353,995	-	-	3,353,995
Mutual funds	202,796	-	-	202,796
Interlocal agreement investment pools	-	30,218	15,095	45,313
Accrued interest receivable	5,006	-	-	5,006
 Total assets	 11,276,740	 30,218	 15,095	 11,322,053
Net Assets				
Held in trust for pension benefits	11,276,740	-	-	11,276,740
Held in trust for retiree health care benefits	-	30,218	15,095	45,313
 Total net assets	 <u>\$ 11,276,740</u>	 <u>\$ 30,218</u>	 <u>\$ 15,095</u>	 <u>\$ 11,322,053</u>

City of Center Line, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds - Pension and Other Employee Benefit Trust Funds Year Ended June 30, 2004

	Police and Fire Retirement System	Police and Fire Retiree Health Care	General Retiree Health Care	Total
Additions				
Investment income:				
Interest and dividends	\$ 163,909	\$ 214	\$ 95	\$ 164,218
Net appreciation in fair value of investments	1,555,458	-	-	1,555,458
Less investment expenses	<u>(93,253)</u>	<u>-</u>	<u>-</u>	<u>(93,253)</u>
Net investment income	1,626,114	214	95	1,626,423
Contributions:				
Employer	5,516	-	15,000	20,516
Employees	<u>172,604</u>	<u>-</u>	<u>-</u>	<u>172,604</u>
Total contributions	<u>178,120</u>	<u>-</u>	<u>15,000</u>	<u>193,120</u>
Total additions	1,804,234	214	15,095	1,819,543
Deductions				
Benefit payments	736,711	-	-	736,711
Insurance	17,544	-	-	17,544
Refunds	44,471	-	-	44,471
Administrative expenses	<u>4,870</u>	<u>-</u>	<u>-</u>	<u>4,870</u>
Total deductions	<u>803,596</u>	<u>-</u>	<u>-</u>	<u>803,596</u>
Net Increase	1,000,638	214	15,095	1,015,947
Net Assets Held in Trust for Pension and Other Employee Benefits				
Beginning of year	<u>10,276,102</u>	<u>30,004</u>	<u>-</u>	<u>10,306,106</u>
End of year	<u>\$ 11,276,740</u>	<u>\$ 30,218</u>	<u>\$ 15,095</u>	<u>\$ 11,322,053</u>

August 19, 2004

Honorable Mayor and
Members of the City Council
City of Center Line
7070 Ten Mile Road
Center Line, MI 48015

Dear Mayor and Members of the City Council:

We have recently completed our audit of the financial statements of the City of Center Line for the year ended June 30, 2004. In addition to the financial report, we offer the following items for your consideration:

NEW FINANCIAL STATEMENT FORMAT (GASB 34)

As you are aware, Governmental Accounting Standards Board (GASB) Statement No. 34 was implemented for the City's 2004 fiscal year. GASB 34 has dramatically changed the look and feel of the financial statements. While the financial statements retain an element of familiarity with the continued reporting of fund based information, there are several additions and changes that provide information never before presented in the City's annual financial report. A brief summary of the changes are as follows:

- *Management Discussion and Analysis (MD&A)*: The MD&A provides a high-level overview of the City's financial position and results of operations, with a focus on the government-wide financial statements.
- *Government-Wide Financial Statements*: These additional statements adjust the normal fund-based statements into a combined, full-accrual format (similar to for-profit commercial enterprises). This allows a financial statement reader to see the City from a longer term, economic perspective (i.e., are today's taxpayers paying for today's services?). These statements show capital and infrastructure assets, as well as long term debt as part of the City's overall financial picture.
- *Focus on Major Funds*: The fund-based financial statements now focus on the City's most significant funds (major funds). For 2004, the City's major governmental funds are the General Fund and the Construction Fund; the City's major enterprise fund is the Water and Sewer Fund.
- *Budget Comparison*: A financial statement reader will now be able to view not only the actual revenues and expenditures for the City's major governmental funds as compared to the current budget, but also as compared to the original budget.

INTERNAL CONTROL AND FRAUD PREVENTION

Designing and maintaining a sound system of internal controls over City assets, as well as fraud prevention and detection, are on the forefront in today's business environment. As part of our audit of the City's 2004 financial statements, we performed additional procedures as required by Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit* (SAS 99). While SAS 99 does not change the focus of the financial statement audit to a "fraud audit," the new standard incorporates a change in mindset for auditors to search for and identify significant fraud risk factors. SAS 99 requires auditors to perform specific procedures to search for significant fraud risk factors, including inquiries with key members of the administration and other employees throughout the organization; a retrospective review of accounting estimates; a detailed review of all journal entries; and other related procedures. We are pleased to report that no significant fraud risk factors or instances of fraud were identified as a result of our procedures.

As part of the City's process of continuous improvement, we noted the following item that the City may wish to consider. The City frequently utilizes electronic (or wire) transfers in lieu of writing checks to disburse funds and to transfer cash between financial institutions. Wire transfers are often used as a matter of convenience; however, under certain circumstances (e.g., federal payroll tax deposits) amounts can only be paid through wire transfer. The City has instituted policies and procedures to ensure appropriate internal control over wire transfers; however, these controls have been focused primarily on the accounting and reconciliation for wire transfers. Currently, wire transfers can be initiated by one individual (the Treasurer or Deputy Treasurer) without a secondary approval. We recommend that the City consider developing controls to ensure that there is a secondary approval by an appropriate individual prior to initiating wire transfers. These controls should incorporate security measures provided by the financial institutions that offer wire transfer services, as well as provisions for ensuring that the controls meet the cost benefit relationship of any aspect of internal control. We would be happy to assist the City in developing such controls.

OVERVIEW OF GENERAL FUND FINANCIAL CONDITION

During the year ended June 30, 2004, the City's financial condition improved as General Fund revenues exceeded expenditures by approximately \$79,000. As a result, fund balance at June 30, 2004, increased to approximately \$960,000. Of this total, \$232,000 is reserved for prepaid expenses and \$728,000 is designated for the 2004-2005 budget, capital expenditures and other purposes.

During the 2003-2004 fiscal year, the City experienced only modest growth in property tax revenue and a reduction in State revenue sharing; however, most departments were near or below budgeted expenditures. We compliment the City Council and administration for their success in planning and monitoring the budget.

The City continues to be faced with budgetary challenges. Many challenges, including further reductions in State shared revenue, are a direct result of the difficult economic period that has been experienced in the State of Michigan. Other challenges, such as limited ability to

experience growth in property tax revenue, future capital equipment and infrastructure needs, and currently unfunded post-employment benefit obligations are characteristics of the City and its physical framework. We encourage the City Council and administration to continue to closely monitor the budget to ensure that fund balance reserves are adequate. The maintenance of an adequate level of working capital is paramount to the City's ability to meet financial challenges without affecting the level of services provided to citizens or the ability to fund future obligations.

STATE REVENUE SHARING

The City has continued to feel the effects of the sluggish State economy. Reduced sales tax collections and significant budget shortfalls at the State of Michigan negatively impact the City as a result of reduced revenue sharing payments. As you are aware, revenue sharing payments are funded solely through sales tax collections. Budget cuts to the statutory portion of revenue sharing made by the State have further compounded the effect of reduced sales tax collections. State shared revenue payments, which totaled approximately 14 percent of the 2004 General Fund Budget, decreased from the payments received in 2003 by approximately 10 percent and based on the current projections provided by the State of Michigan, revenue sharing payments are expected to be reduced again in 2004-2005.

It is uncertain at this point in time whether sales tax collections will rebound in 2004-2005 or whether the State will make future accommodations to replace revenue lost as a result of budget cuts. As such, we recommend that the City continually monitor the impact of changes to projected revenue sharing payments on the General Fund budget. In addition to the periodic updates that we provide to the City, updated information can be obtained from the Department of Treasury's web site at <http://treas-secure.state.mi.us/apps/findrevshareinfo.asp> or by calling the Office of Revenue and Tax Analysis at (517) 373-2697.

CAPITAL ASSETS

As part of the implementation of GASB Statement No. 34, the City had an appraisal of its governmental capital assets performed. As you are aware, an accounting of governmental capital assets had not previously been performed resulting in the City receiving a "qualified" audit opinion as a result of this deficiency. We are pleased to report that the opinion on the City's financial statements for the 2004 fiscal year is unqualified, meaning that all information required by generally accepted accounting principles has been presented.

The results of the appraisal indicated that the City's governmental activities utilize capital assets with a gross cost of nearly \$8.3 million and a net book value (net of a depreciation allowance since acquisition) of approximately \$5.0 million. Additional information regarding the City's capital assets can be found in Note 4 to the financial statements.

Honorable Mayor and
Members of the City Council
City of Center Line

-4-

August 19, 2004

FUNDING OF POST-EMPLOYMENT BENEFIT OBLIGATIONS

The City provides post-employment benefits to retirees that are funded currently from the General Fund and the Police and Fire Retirement System. For the year ended June 30, 2004, the cost of these benefits amounted to approximately \$706,000, which represents an increase of 12 percent over the 2003 amount. The City has experienced post-employment health care cost increases of 10 to 20 percent over the past several years and this annual cost is expected to continue to grow as the average age of the City's workforce and the number of former employees eligible for post-employment benefits increases.

As you are aware, the City has established a Police and Fire Retiree Health Care Fund and a General Employees Retiree Health Care Fund, which will be used to accumulate monies to fund future post-employment benefits. This represents an important first step in beginning to set aside resources to fund these obligations and we commend the City for taking the initiative to establish these funds.

We recommend that the City also consider evaluating and funding post-employment benefit obligations on an actuarial basis, similar to pension obligations. Current accounting pronouncements do not require accounting for post-employment on an actuarial basis. The Governmental Accounting Standards Board, however, has recently issued a pronouncement (Statement No. 45) that includes provisions for measuring post-employment benefit liabilities and expenses on an actuarial basis. While this new standard will not need to be implemented by the City until 2009, actuarial funding generally provides the best mechanism for funding obligations over long time periods and multiple budget cycles and we recommend that the City consider the benefits of this funding mechanism prior to implementing GASB statement No. 45.

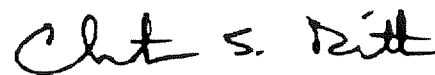
We would like to thank the City for the continued opportunity to serve as your auditors and for the assistance and cooperation extended to us throughout this audit. We would be happy to answer any questions you have regarding the annual financial report, and would be pleased to discuss the above comments and recommendations at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



David V. Grubb



Christian S. Ritter

cc: Ms. Nancy Bourgeois